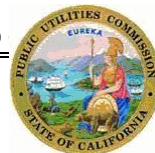


PUBLIC UTILITIES COMMISSION

505 VAN NESS AVENUE

SAN FRANCISCO, CA 94102-3298

**FILED**

11-10-16

03:34 PM

November 10, 2016

Agenda ID #15330
Ratesetting

TO PARTIES OF RECORD IN APPLICATION 14-07-006:

This is the proposed decision of Administrative Law Judge Lirag. Until and unless the Commission hears the item and votes to approve it, the proposed decision has no legal effect. This item may be heard, at the earliest, at the Commission's December 15, 2016 Business Meeting. To confirm when the item will be heard, please see the Business Meeting agenda, which is posted on the Commission's website 10 days before each Business Meeting.

Parties of record may file comments on the proposed decision as provided in Rule 14.3 of the Commission's Rules of Practice and Procedure.

The Commission may hold a Ratesetting Deliberative Meeting to consider this item in closed session in advance of the Business Meeting at which the item will be heard. In such event, notice of the Ratesetting Deliberative Meeting will appear in the Daily Calendar, which is posted on the Commission's website. If a Ratesetting Deliberative Meeting is scheduled, ex parte communications are prohibited pursuant to Rule 8.3(c)(4)(B).

/s/ KAREN V. CLOPTONKaren V. Clopton, Chief
Administrative Law Judge

KVC:jt2

Attachment

Decision **PROPOSED DECISION OF ALJ LIRAG** (Mailed 11/10/2016)

BEFORE THE PUBLIC UTILITIES COMMISSION OF THE STATE OF CALIFORNIA

In the matter of the Application of the
GOLDEN STATE WATER COMPANY
(U133W) for an order authorizing it to
decrease rates for water service by
\$1,615,400 or -0.50% in 2016, to increase by
\$10,280,800 or 3.21% in 2017; and increase
by \$10,303,200 or 3.12% in 2018.

Application 14-07-006
(Filed July 15, 2014)

**DECISION ADDRESSING THE GENERAL RATE CASE APPLICATION OF
GOLDEN STATE WATER COMPANY AND THE PROPOSED SETTLEMENT**

Table of Contents

<u>Title</u>	<u>Page</u>
DECISION ADDRESSING THE GENERAL RATE CASE APPLICATION OF GOLDEN STATE WATER COMPANY AND THE PROPOSED SETTLEMENT ..	1
Summary	2
1. Procedural Background.....	5
2. PPHs and Correspondence	12
3. Standard of Review	13
4. Settlement Agreement	14
4.1. Plant – Regions 1,2, and 3	15
4.2. Sales and Customers.....	16
4.2.1. Number of Customers.....	16
4.2.2. Usage Per Customer.....	16
4.2.3. Water Loss	17
4.2.4. Request to Lift 10 Percent Cap on WRAM/MCBA	17
4.3. Labor	18
4.4. Administrative and General Expenses	19
4.4.1. Office Supplies	19
4.4.2. Property Insurance	19
4.4.3. Injuries and Damages.....	20
4.4.4. Pension and Benefits	20
4.4.5. Business Meals	20
4.4.6. Outside Services.....	21
4.4.7. Miscellaneous	21
4.4.8. Allocated General Office and District Office Expenses	21
4.4.9. Other Maintenance of General Plant	22
4.4.10. Rent	22
4.5. Operations and Maintenance Expenses.....	22
4.5.1. Billing and Payment Processing Allocated From General Office...	23
4.5.2. Other Operating Expenses	23
4.5.3. Uncollectible Rates	23
4.5.4. Other Maintenance Expenses.....	24
4.5.5. Chemical Expenses	24
4.6. Taxes	24
4.6.1. Property Taxes	24
4.6.2. Payroll Taxes	25
4.6.3. Local Taxes.....	25

Table of Contents (cont.)

<u>Title</u>	<u>Page</u>
4.6.4. Income Taxes	25
4.6.5. Deferred Income Taxes	25
4.7. Sources of Supply and Volumes	26
4.8. Conservation Expenses and Programs	26
4.8.1. Conservation Expense Balancing Account	27
4.9. General Office	28
4.9.1. Plant Additions	28
4.9.2. Allocation.....	29
4.9.2.1. Corporate Support.....	29
4.9.2.2. Centralized Operations Support Department.....	29
4.9.2.3. Billing and Payment Processing.....	29
4.9.3. Revenues and Expenses.....	30
4.9.3.1. General Office Outside Services.....	30
4.9.3.2. Disputed Revenues and Expenses Cost Categories	32
4.10. Rate Design	32
4.11. Customer Service Reporting.....	32
4.12. Purchased Water, Pump Tax, and Purchased Power	33
4.13. Special Requests	33
4.13.1. Special Request #1	33
4.13.2. Special Request #2	34
4.13.3. Special Request #4	35
4.13.4. Special Request #5	35
4.13.5. Special Request #6	35
4.13.6. Special Request #7	36
4.13.7. Special Request #8	36
4.13.8. Special Request #9	37
4.13.9. Special Request #10	37
4.13.10. Special Request #11	37
4.13.11. Special Request #12	37
4.13.12. Special Request #13	38
4.13.13. Special Request #14	38
4.13.14. Disputed Special Requests	38
4.14. Other Issues.....	39
4.15. Comments Regarding the Settlement Agreement	39
4.15.1. Claremont	39

Table of Contents (cont.)

<u>Title</u>	<u>Page</u>
4.15.2. Ojai Flow	40
4.15.3. Golden State and ORA.....	40
4.15.4. Discussion.....	41
5. Adoption of the Settlement Agreement.....	42
6. Disputed Issues.....	45
6.1. Capital Projects.....	45
6.1.1. Capital Projects Common Issues	46
6.1.1.1. Contingency Factor	46
6.1.1.1.1. Discussion	47
6.1.1.2. Design Cost.....	47
6.1.1.2.1. Discussion	48
6.1.1.3. Vehicle Replacements	48
6.1.1.3.1. Discussion	49
6.1.1.4. Urban Water Management Plans.....	49
6.1.1.4.1. Discussion	49
6.1.1.5. Chemical Disinfection Building Replacements.....	50
6.1.1.6. General Order 103-A Minimum Pressure Requirements.....	50
6.1.1.7. Maximum Day Demand and Firm Capacity.....	51
6.1.2. Pipeline Projects.....	51
6.1.2.1. Positions of the Parties.....	52
6.1.2.1.1. ORA.....	52
6.1.2.1.2. Golden State	52
6.1.2.2. Discussion.....	53
6.1.3. Region 1 Projects.....	56
6.1.3.1. Arden Cordova CSA	56
6.1.3.1.1. Positions of the Parties	56
6.1.3.1.1.1. ORA.....	56
6.1.3.1.1.2. Golden State.....	56
6.1.3.1.2. Discussion	57
6.1.3.2. Bay Point CSA.....	59
6.1.3.2.1. Positions of the Parties	59
6.1.3.2.2. Discussion	60
6.1.3.3. Clearlake CSA	61
6.1.3.3.1. Positions of the Parties	61
6.1.3.3.2. Discussion	61

Table of Contents (cont.)

<u>Title</u>	<u>Page</u>
6.1.3.4. Los Osos, CSA.....	62
6.1.3.4.1. Positions of the Parties	62
6.1.3.4.1.1. ORA.....	62
6.1.3.4.1.2. Golden State.....	63
6.1.3.4.2. Discussion	63
6.1.3.5. Ojai CSA.....	65
6.1.3.5.1. Positions of the Parties	65
6.1.3.5.1.1. ORA.....	65
6.1.3.5.1.2. Golden State.....	65
6.1.3.5.2. Discussion	66
6.1.3.6. Santa Maria CSA.....	67
6.1.3.6.1. Positions of the Parties	68
6.1.3.6.1.1. ORA.....	68
6.1.3.6.1.2. Golden State.....	69
6.1.3.6.2. Discussion	71
6.1.4. Region 2 Projects.....	76
6.1.4.1. Central Basin East CSA.....	76
6.1.4.1.1. Positions of the Parties	76
6.1.4.1.2. Discussion	76
6.1.4.2. Central Basin West CSA	76
6.1.4.2.1. Positions of the Parties	77
6.1.4.2.2. Discussion	77
6.1.4.3. Culver City	78
6.1.4.3.1. Positions of the Parties	78
6.1.4.3.1.1. ORA.....	78
6.1.4.3.1.2. Golden State.....	78
6.1.4.3.2. Discussion	78
6.1.4.4. Southwest CSA	79
6.1.4.4.1. Positions of the Parties	79
6.1.4.4.1.1. ORA.....	79
6.1.4.4.1.2. Golden State.....	80
6.1.4.4.2. Discussion	80
6.1.4.5. Region 2 SCADA Projects	81
6.1.5. Region 3 Projects.....	81
6.1.5.1. Los Alamitos CSA	81

Table of Contents (cont.)

<u>Title</u>	<u>Page</u>
6.1.5.1.1. Positions of the Parties	82
6.1.5.1.1.1. ORA.....	82
6.1.5.1.1.2. Golden State.....	82
6.1.5.1.2. Discussion	83
6.1.5.2. Placeentia CSA.....	85
6.1.5.2.1. Positions of the Parties	85
6.1.5.2.2. Discussion	86
6.1.5.3. Foothill District Office	87
6.1.5.3.1. Discussion	87
6.1.5.4. Claremont CSA.....	88
6.1.5.4.1. Positions of the Parties	88
6.1.5.4.1.1. ORA.....	88
6.1.5.4.1.2. Claremont.....	88
6.1.5.4.1.3. Golden State.....	88
6.1.5.4.2. Discussion	89
6.1.5.5. San Gabriel CSA	90
6.1.5.5.1. Discussion	90
6.1.5.6. Barstow CSA	90
6.1.5.6.1. Positions of the Parties	90
6.1.5.6.1.1. ORA.....	90
6.1.5.6.1.2. Golden State.....	91
6.1.5.6.2. Discussion	91
6.1.5.7. Morongo Valley CSA.....	93
6.1.5.7.1. Positions of the Parties	93
6.1.5.7.2. Discussion	94
6.1.5.8. Apple Valley CSA.....	94
6.1.5.8.1. Positions of the Parties	95
6.1.5.8.2. Discussion	95
6.1.5.9. Wrightwood	96
6.1.5.9.1. Positions of the Parties	96
6.1.5.9.1.1. ORA.....	96
6.1.5.9.1.2. Golden State.....	96
6.1.5.9.2. Discussion	97
6.2. Labor Expenses.....	97
6.2.1. Officer Compensation.....	98

Table of Contents (cont.)

<u>Title</u>	<u>Page</u>
6.2.1.1. Positions of the Parties.....	98
6.2.1.1.1. ORA.....	98
6.2.1.1.2. Golden State.....	99
6.2.1.1.3. Discussion	99
6.2.2. Manager Compensation	101
6.2.2.1. Positions of the Parties.....	101
6.2.2.1.1. ORA.....	101
6.2.2.1.2. Golden State.....	101
6.2.2.2. Discussion.....	101
6.2.3. STIP and LTIP	102
6.2.3.1. Positions of the Parties.....	102
6.2.3.1.1. ORA.....	102
6.2.3.1.2. Golden State.....	103
6.2.3.2. Discussion.....	103
6.2.3.2.1. STIP	103
6.2.3.2.2. LTIP	104
6.2.4. Merit Salary Adjustment	106
6.2.4.1. Positions of the Parties.....	106
6.2.4.1.1. ORA.....	106
6.2.4.1.2. Golden State.....	106
6.2.4.2. Discussion.....	106
6.2.5. Procurement Department Position	107
6.2.5.1. Positions of the Parties.....	107
6.2.5.1.1. ORA.....	107
6.2.5.1.2. Golden State.....	108
6.2.5.2. Discussion.....	108
6.3. General Office.....	108
6.3.1. IT Upgrades Capital Upgrades General Office Plant.....	109
6.3.1.1. IT Upgrades.....	109
6.3.1.1.1. Positions of the Parties	109
6.3.1.1.1.1. ORA.....	109
6.3.1.1.1.2. Golden State.....	109
6.3.1.1.2. Discussion	110
6.3.1.1.2.1. Network Equipment.....	110
6.3.1.2. Additional Storage	111

Table of Contents (cont.)

<u>Title</u>	<u>Page</u>
6.3.1.3. Data Center Refresh Project.....	111
6.3.1.4. Personal Computers and Peripherals.....	112
6.3.1.5. Upgrade Consolidated Financial Reporting Software....	112
6.3.2. Software License Renewals and Maintenance Agreement.....	113
6.3.2.1. Positions of the Parties.....	113
6.3.2.1.1. ORA.....	113
6.3.2.1.2. Golden State.....	113
6.3.2.2. Discussion.....	113
6.3.3. GIS Project.....	114
6.3.3.1. Positions of the Parties.....	114
6.3.3.1.1. ORA.....	114
6.3.3.1.2. Golden State.....	114
6.3.3.2. Discussion.....	115
6.3.4. General Office Vehicles.....	115
6.3.4.1. Positions of the Parties.....	115
6.3.4.1.1. ORA.....	115
6.3.4.1.2. Golden State.....	116
6.3.4.2. Discussion.....	116
6.3.5. Office Upgrades	117
6.3.5.1. Positions of the Parties.....	118
6.3.5.1.1. ORA.....	118
6.3.5.1.2. Golden State.....	118
6.3.5.2. Discussion.....	118
6.3.6. Customer Service Center Relocation to Anaheim	119
6.3.6.1. Positions of the Parties.....	120
6.3.6.1.1. ORA.....	120
6.3.6.1.2. Golden State.....	120
6.3.6.2. Discussion.....	120
6.3.7. San Dimas Parking Lot Improvement.....	120
6.3.7.1. Positions of the Parties.....	120
6.3.7.1.1. ORA.....	120
6.3.7.1.2. Golden State.....	120
6.3.7.2. Discussion.....	121
6.3.8. San Dimas Generator Replacement	121
6.3.8.1. Positions of the Parties.....	121

Table of Contents (cont.)

<u>Title</u>	<u>Page</u>
6.3.8.1.1. ORA.....	121
6.3.8.1.2. Golden State	121
6.3.8.2. Discussion.....	121
6.3.9. Summary of General Office Disputed Costs	122
6.4. Escalation Filings.....	123
6.4.1. Positions of the Parties.....	123
6.4.2. Discussion.....	123
6.5. Special Request #3	124
6.5.1. Positions of the Parties.....	124
6.5.1.1. ORA	124
6.5.1.2. Golden State	124
6.5.2. Discussion.....	125
6.6. Other Issues.....	126
6.6.1. Condemnation Defense Costs.....	126
6.6.1.1. Claremont	126
6.6.1.2. Discussion.....	126
6.6.2. Archive of Memorandum and Balancing Accounts	128
6.6.3. Other Issues in the Ojai CSA.....	129
6.6.3.1. Discussion.....	129
6.6.4. Santa Maria CSA Adjustment.....	130
7. Authorization to File Revised Tariffs	131
8. Categorization and Need for Hearing.....	133
9. Comments on Proposed Decision.....	133
10. Assignment of Proceeding.....	133
Findings of Fact.....	134
Conclusions of Law	146
ORDER	150
Attachment A – Joint Response and Corrected Settlement Agreement	
Attachment B - Acronyms and Abbreviations	
Appendix A – Summary of Earnings for Test Year 2016	
Appendix B - Rate Base for Test Year 2016	
Appendix C - Computation of Taxes on Income	
Appendix D - Adopted Quantities	
Appendix E – Stipulated Quantities	

Table of Contents (cont.)

<u>Title</u>	<u>Page</u>
Appendix F - Sprinkler Meter Ratios	
Appendix G - Alternate Rates for Water	

ADDRESSING THE GENERAL RATE CASE APPLICATION OF GOLDEN STATE WATER COMPANY AND THE PROPOSED SETTLEMENT

Summary

Today's decision addresses the Test Year (TY) 2016 general rate case (GRC) application of Golden State Water Company (Golden State).

This decision authorizes a revenue requirement of \$295.265 million for Golden State for TY2016, which is \$24.037 million lower than Golden State's requested amount of \$319.302 million.

The authorized revenue requirement for TY2016 amount represents an 8.49 percent decrease over adopted rates for 2014.¹ Golden State's revenue requirement for 2017 is expected to increase by approximately 2.66 percent over 2016 revenues, and the 2018 revenue requirement is expected to increase by 2.74 percent over 2017 adopted revenues.

For TY2016, the average residential customer with a 5/8 x 3/4" meter will experience a bill change in 2016, ranging from a decrease of 21.82 percent in the Simi Valley Customer Service Area (CSA) to an increase of 10.82 percent in the Los Osos CSA, excluding any applicable surcharges.²

Table 1 shows a comparison between average residential monthly consumption and bill for 2014, and the forecast for 2016, for each of Golden State's ratemaking areas. The table also shows the dollar and percent changes for average monthly consumption. It should be noted that the forecast average

¹ Rates for 2014 are the most current rates on record.

² The above comparison is between average monthly consumption in 2014 and average monthly consumption in 2016 and does not reflect a comparison based on equal consumption in 2014 and 2016, due to the mandatory conservation applied in 2016.

consumption for 2016 reflects a reduction in average actual consumption due to the mandatory conservation in place.

Table 1 Monthly usage and change in the monthly bill for the average residential customer with a 5/8 x 3/4" meter (excluding any applicable surcharges)						
Ratemaking Area	2014 Monthly Use (hundred cu ft)	Bill	2016 Monthly Use (hundred cu ft)	Bill	Amount Change	Percent Change
Arden Cordova	@ 17 Ccf	\$32.32	@ 14 Ccf	\$31.23	-\$1.09	-3.39%
Bay Point	@ 9 Ccf	\$62.04	@ 8 Ccf	\$60.09	-\$1.95	-3.14%
Clearlake	@ 6 Ccf	\$82.60	@ 5 Ccf	\$84.57	\$1.97	2.38%
Los Osos	@ 8 Ccf	\$79.68	@ 7 Ccf	\$88.30	\$8.62	10.82%
Ojai	@ 21 Ccf	\$113.28	@ 13 Ccf	\$108.92	-\$4.36	-3.85%
Santa Maria	@ 20 Ccf	\$55.14	@ 15 Ccf	\$54.51	-\$0.63	-1.14%
Simi Valley	@ 15 Ccf	\$70.48	@ 11 Ccf	\$55.10	-\$15.38	-21.82%
Region 2	@ 11 Ccf	\$60.19	@ 10 Ccf	\$53.73	-\$6.46	-10.73%
Region 3	@ 15 Ccf	\$65.33	@ 11 Ccf	\$55.56	-\$9.77	-14.95%

The decision also adopts the Settlement Agreement³ between Golden State and the Office of Ratepayer Advocates, which resolves many of the issues in this proceeding. The remaining disputed issues include many plant and general office capital projects, labor costs including pension and bonuses, the method for escalation filings, Golden State's Special Request #3 to include chemical costs in its existing modified cost balancing account, and several issues raised by the City of Claremont and Ojai Flow.

³ The Settlement Agreement is attached to this decision as Attachment A.

The decision incorporates a revenue adjustment of \$391,900 in the Santa Maria CSA, authorized in Decision (D.) 16-09-011.⁴ This revenue adjustment is associated with Golden State's recovery of costs for participation in the Nipomo Supplemental Water Project.

Golden State timely sought and was granted authority to file a tariff to implement interim rates, effective January 1, 2016, and to establish a memorandum account to track the difference between the interim rates and final rates. Public Utilities Code Section 455.2 provides for interim rate relief when the Commission is unable to issue its final decision on a GRC application of a water corporation with greater than 10,000 service connections in a manner ensuring the decision becomes effective on the first day of the test year in the application.⁵ The first day of the test year for this application was January 1, 2016.

The surcharge to true-up the interim rates must comply with Standard Practice U-27-W, and be based on the methodology set forth in D.03-06-072. Any over-collection must be refunded to customers in the form of a surcredit and any under-collection must be collected from customers in the form of a surcharge.

In order to avoid multiple rate changes within a short period of time, the revised schedules for 2016 authorized in this decision shall be included in and subsumed in the escalation filing for attrition year 2017. In addition, the effective date of the true-up of interim rates shall coincide with the effective date of the 2017 escalation filing.

⁴ D.16-09-011 was issued on September 16, 2015.

⁵ All statutory references are to the Public Utilities Code unless otherwise indicated.

An interim decision was issued on December 17, 2015,⁶ resolving all issues concerning a separate phase in the proceeding relating to water quality issues in the City of Gardena.

This GRC proceeding is closed.

1. Procedural Background

Golden State Water Company (Golden State or Applicant) is a Class A water company regulated by the Commission. Its service territory is divided into three geographical regions. Region 1 incorporates customer service areas (CSA) in Northern California and the Central Coast while Regions 2 and 3 encompass areas of Southern California.

Golden State filed this general rate case (GRC) application with the Commission on July 15, 2014. Among other things, Golden State is requesting authority to decrease rates for water service by \$1,615,400 or -0.50 percent in 2016, to increase rates by \$10,280,800 or 3.21 percent in 2017; and to increase rates by \$10,303,200 or 3.12 percent in 2018. Protests to the application were timely filed⁷ by the City of Ojai (Ojai),⁸ the City of Claremont (Claremont),⁹ and the Office of Ratepayer Advocates (ORA).¹⁰

A prehearing conference (PHC) was held on September 2, 2014. Following the PHC, the issues and procedural schedule were addressed in the assigned Commissioner's scoping memo and ruling (Scoping Ruling) issued on

⁶ D.15-12-036.

⁷ A.14-07-006 appeared on the Commission's daily calendar on July 18, 2014.

⁸ Ojai filed its protest on August 14, 2014.

⁹ Claremont filed its protest on August 15, 2014.

¹⁰ ORA filed its protest on August 18, 2014.

September 24, 2014. The schedule adopted in the Scoping Ruling was revised in the December 12, 2014 ruling of the assigned Administrative Law Judge (ALJ), moving back the service of intervenor and rebuttal testimony and the filing of the Case Management Statement by approximately one week. In addition, the deadline set for conducting at least one settlement conference and submission of a settlement conference report was eliminated. During the PHC, Ojai Flow made a motion for party status which was granted.

On September 11, 2014, Cypress Ridge Owners Association filed a motion to become a party, which was granted.¹¹

On October 2, 2014, the City of Bell (Bell) filed a motion to become a party, which was granted on March 9, 2015.¹²

Five public participation hearings (PPHs) were held in November and December of 2014. In addition, a number of letters and e-mails regarding the application were received by the Commission. A summary of these letters and e-mails and comments from the PPHs is described in the next section of this decision.

On March 6, 2015, two separate motions were filed by ORA for the Commission to order separate phases (Phase II) in A.14-07-006 in order to address water quality issues in the City of Gardena (Gardena), and to consider Golden State's compliance with Decision (D.) 11-12-034.¹³ A PHC was scheduled to discuss issues concerning compliance with D.11-12-034.

¹¹ Cypress Ridge Owners Association was added to the list of parties on March 9, 2015.

¹² See March 9, 2015 ruling of the assigned ALJ.

¹³ Golden State agreed to improve its internal procurement policy and was subject to three audits by an independent auditor over a ten-year period.

On March 23, 2015, the schedule in the Scoping Ruling was revised to add service of testimony and hearing dates¹⁴ to consider the issues raised in ORA's motion regarding water quality issues in Gardena. These issues were previously identified as part of the scope of the proceeding.

On May 5, 2015, Ojai Flow filed a motion for official notice of a decision and opinion by the 2nd Appellate District of the Court of Appeals.¹⁵ The motion was denied during the May 26, 2015 evidentiary hearing.¹⁶

Ojai Flow filed another motion on May 8, 2015, to compel Golden State to produce certain information requested by Ojai Flow. An ALJ ruling was issued on the same day granting the motion in part, but ruling that certain data requests included in the motion were burdensome.

On May 8, 2015, the assigned ALJ issued a ruling requiring parties to amend testimonies submitted to account for Resolution W-5041, in which the Commission implemented Governor's Executive Order B-29-15, requiring all Class A and Class B water utilities to implement a 25 percent reduction in water usage statewide.

On May 20, 2015, Golden State, ORA, Claremont and Ojai Flow submitted a Case Management Statement and Settlement Conference Report. The report states that settlement discussions among the active parties in the proceeding were ongoing and that the parties arrived at a settlement regarding a few issues namely, well study balancing account, conservation, and supply costs.

¹⁴ The hearing dates were later re-scheduled after Notice from the Commission was issued on August 6, 2015.

¹⁵ In the case of Golden State Water Co., v. Casitas Municipal Water Dist. involving eminent domain of the Ojai district/region.

¹⁶ TR 284:11-15.

Evidentiary hearings were held from May 26, 2015, until June 5, 2015. Around 278 exhibits were identified and used during the course of these proceedings.¹⁷

Subsequent to the hearing, the briefing schedule was extended¹⁸ pursuant to a request from the parties.

On June 19, 2015, ORA filed a motion to make corrections in the evidentiary hearing transcripts. The motion was granted on August 7, 2015.

On July 6, 2015, a Joint Motion to Approve a Settlement Agreement between Golden State and ORA was filed. The settlement agreement between Golden State and ORA (Settlement Agreement) resolves many issues among these two parties. Comments to the Settlement Agreement were filed by Claremont on August 5, 2015, and Ojai Flow on September 15, 2015, following the grant of an extension of time to Ojai Flow. Golden State and ORA's reply comments were filed on August 20, 2015.¹⁹

Opening briefs were filed by Golden State, ORA, Claremont and Ojai Flow on July 17, 2015, and reply briefs were filed on August 17, 2015. ORA filed motions to treat its opening and reply briefs as confidential. The assigned ALJ issued a ruling on August 25, 2015, requiring ORA to specify information that

¹⁷ Exhibits from the Applicant consist of direct testimony, rebuttal testimony, workpapers in support of direct and rebuttal testimony, and other exhibits used during the examination of witnesses. Exhibits by the other parties consist of direct and rebuttal testimony, and other exhibits used during the examination of witnesses.

¹⁸ See ALJ rulings revising schedules to submit opening and reply briefs on June 12, 2015, and August 3, 2015.

¹⁹ Golden State and ORA had received Ojai Flow's comments to the settlement on August 5, 2015, although the filing of the comments was rejected by the Commission's Docket Office due to a technical error. After an extension of time, Ojai Flow's comments were properly filed on September 15, 2015.

should be kept confidential and to provide corresponding explanations. ORA revised its request for confidential treatment on September 9, 2015, and the motions to treat portions of its opening and reply briefs under seal were granted on September 15, 2015.

On July 17, 2015, Golden State filed a motion requesting interim rate relief²⁰ effective January 1, 2016, in the event that a final decision in this proceeding is not made at such time. The motion was granted on September 3, 2015. § 455.2 provides for interim rate relief when the Commission is unable to issue its final decision on a GRC application of a water corporation with greater than 10,000 service connections in a manner ensuring the decision becomes effective on the first day of the test year in the application and the first day of the test year for this application was January 1, 2016.

On August 3, 2015, a PHC to discuss the need for a separate phase to discuss audit issues and compliance with D.11-12-034 was cancelled²¹ following ORA's indication that it no longer had any concerns regarding compliance with D.11-12-034 (subsequent to the submission of the first audit report), and after hearing comments from Claremont and Ojai Flow.

On August 17, 2015, Golden State filed a motion requesting oral argument before the Commission. The motion was granted in the ALJ ruling dated September 28, 2015, with the actual date of the oral argument to be specified in a later ruling.

²⁰ Pursuant to § 455.2 and the rate case plan for Class A water utilities adopted in D.04-06-018 and revised in D.07-05-062.

²¹ See ALJ Ruling issued on August 3, 2015.

On August 31, 2015, Ojai Flow filed a motion for official notice of a determination letter from the State Water Quality Control Board regarding Golden State's status as an urban water supplier. The motion was granted on October 22, 2015.²² Ojai Flow also filed a motion on September 18, 2015, for Golden State to serve supplemental testimony. This motion was denied on October 22, 2015.²³

A telephonic PPH was held on September 14, 2015, regarding Phase II of the application wherein residents from Gardena provided comments regarding water quality in Gardena. An evidentiary hearing regarding Phase II issues was held on the same day after conclusion of the PPH. Only Golden State and ORA participated in the Phase II evidentiary hearing.

Rulings were issued on September 28, 2015 and September 29, 2015, respectively, removing Bell and Cypress Ridge Owners Association from the list of parties due to lack of active participation.²⁴

On October 7, 2015, a joint motion was filed by Golden State and ORA to approve a Settlement Agreement regarding Phase II of the application (Phase II Settlement Agreement). The Phase II Settlement Agreement resolves all Phase II issues between Golden State and ORA, the only active parties concerning Phase II.

On October 22, 2015, the assigned ALJ issued a ruling directing Golden State to provide additional information regarding revised water requirements for

²² See ALJ Ruling dated October 22, 2015.

²³ *Ibid.*

²⁴ The grant of party status to Bell and Cypress Ridge Owners Association were both conditioned on active participation in the proceeding.

the Ojai district. Golden State filed responses on October 29, 2015, and November 24, 2015.

A joint motion to correct errors in the Settlement Agreement was filed by Golden State and ORA on November 9, 2015. The motion was granted on November 23, 2015.

On December 17, 2015, the Commission issued D.15-12-036 approving the Phase II Settlement Agreement between Golden State and ORA.²⁵ The above decision resolves all Phase II issues.

On February 3, 2016, a revised Scoping Ruling was issued extending the timetable for resolving the issues in this proceeding.

On October 11, 2016, Golden State and ORA filed a joint motion to include the revenue requirement adjustment for the Santa Maria district adopted in D.16-09-011.

Golden State served a corrected version of the Settlement Agreement on October 17, 2016,²⁶ after identifying several projects that were incorrectly described as “litigated.”

The case was deemed submitted on October 11, 2016, upon the filing of Golden State’s and ORA’s Joint Motion to Include the Revenue Requirement Adjustment for the Santa Maria Service Area adopted in D.16-09-011.

²⁵ The settlement addresses water quality issues in the City of Gardena, and requires Golden State to comply with additional reporting requirements detailed in Section 3.2 of the Phase II Settlement Agreement.

²⁶ The October 13, 2016 ALJ ruling directed Golden State to serve a corrected version of the Settlement Agreement.

2. PPHs and Correspondence

Five PPHs were held in different locations²⁷ within the service territories of Golden State in connection with the GRC application and quality of water service. The PPHs were held in order to receive comments from the utilities' customers regarding the impact of the application on them. In addition, a number of letters and e-mails were sent to the Public Advisor's Office of the Commission (PAO) concerning Golden State's rates and other issues in the application.

Almost all of the comments at the PPHs and correspondence received oppose the proposed increases that Golden State is requesting. Many speakers and correspondence explain that after several rate increases in recent years, Golden State's rates were no longer reasonable or affordable. They also oppose a rate increase because of the state of the economy and because of economic circumstances.

Many speakers at the PPHs and many of the letters and e-mails sent to the PAO state that many residents are on fixed incomes, are unemployed or underemployed, and cannot afford any further increase in their utility bills. Some point out that there have only been minimal increases to Social Security, and that salaries have not increased. Several customers also pointed out that Golden State already charges higher rates compared to other nearby water providers, and that further rate increases are not justified.

Customers also explained that their water bill does not decrease even when they conserve and consume less water. Several customers complained that the amount of water provided under the current first tier is inadequate and

²⁷ PPHs were held in Rancho Cordova, Simi Valley, Ojai, Claremont, and Huntington Park.

unreasonable. Others objected to the Water Revenue Adjustment Mechanism (WRAM) charges and state that these charges are unfair and a disincentive for customers to conserve. Several customers recommend that Golden State should be more fiscally responsible and reduce operating costs in various areas.

3. Standard of Review

As the applicant, Golden State bears the burden of proof to show that the rates it requests are just and reasonable and the related ratemaking mechanisms are fair.²⁸ The Settlement Agreement between Golden State and ORA resolves many of the issues in this GRC. Although Claremont and Ojai Flow raised objections to the agreement, their objections were only with respect to a few provisions in the settlement and these are discussed in the appropriate sections.

With respect to any settlement agreement, we will only approve settlements that are reasonable in light of the record as a whole, consistent with the law, and is in the public interest. In order to consider any possible proposed settlement in this proceeding as being in the public interest, we must be convinced that the parties have a sound and thorough understanding of the application and all of the underlying assumptions and data included in the record. This level of understanding of the application and development of an adequate record is necessary to meet our requirements for considering any settlement.

²⁸ In adopting the Rate Case Plan for Water Utilities, the Commission articulated the required showing for a water utility's GRC in D.04-06-018 by stating that "A utility's application for a rate increase must identify, explain, and justify the proposed increase." The application must include testimony, with supporting analysis and documentation, describing the components of the utility's proposed increase. All significant changes from the last adopted and recorded amounts must be explained, and all forecasted amounts must include an explanation of the forecasting method.

With respect to each remaining disputed issue, we shall evaluate whether Golden State's showing meets the Commission's standards for justifying a rate increase. We have reviewed all of the exhibits in this proceeding, as well as the arguments made by the parties during hearings and in their briefs, and considered all arguments and issues parties have raised in deciding what costs should be adopted.

We shall first consider the Settlement Agreement including discussion of objections and concerns raised by Claremont and Ojai Flow, as well as Golden State's and ORA's positions regarding those objections. This shall be followed by a discussion of the remaining disputed issues.

4. Settlement Agreement

Golden State and ORA commenced settlement discussions on May 5, 2015. As mentioned previously, the Settlement Agreement between Golden State and ORA resolves many of the issues in this GRC. The Settlement Agreement includes the following appendices, attached to the Settlement Agreement:

- Appendix A: Reconciliation – Summary of Earnings
- Appendix B: General Office Capital Budget
- Appendix C: General Office Construction Work in Progress (CWIP)
- Appendix D: Regions 1, 2 & 3 Capital Budget
- Appendix E: Regions 1, 2 & 3 CWIP
- Appendix F: Balancing Account and Memorandum Account Surcharges
- Appendix G: Allocation Percentages

In this section, we provide a description of the primary areas addressed in the settlement. We also discuss the objections raised by Claremont and Ojai Flow, as well as Golden State's and ORA's positions regarding the comments and objections raised by Claremont and Ojai Flow.

4.1. Plant – Regions 1,2, and 3

Section 3 of the Settlement Agreement identifies the disputed as well as the undisputed capital projects and budgets for Regions 1, 2, and 3.²⁹ The settling parties did not reach an agreement on many of Golden State's requested capital projects and expenditures. Differences range from issues such as need, scope, timing, and estimated costs for various capital projects and expenditures.

The disputed capital projects are discussed and addressed in the discussion of disputed issues later in the decision. Golden State's requested capital budget for 2015, 2016, and 2017, total \$248.2 million, while ORA's recommended total is \$117.5 million.

With respect to the undisputed capital projects and expenditures that are listed in Section 3 of the Settlement Agreement, we note that no other party raised objections to these projects and expenditures. We also find these to be reasonable and supported by the testimonies and workpapers submitted by Golden State and ORA which were received into evidence. The settling parties also agree on other plant-related issues such as overhead loading factor, CWIP expenditures, depreciable plant calculation, depreciation accrual rates, contribution adjustments, working cash, and lag days for expenses and payroll taxes. Likewise, these issues were not objected to by any party, and we also find the agreements regarding these issues to be reasonable.

²⁹ General Office capital projects are included in section 12 of the Settlement Agreement and are not included in this section.

4.2. Sales and Customers

4.2.1. Number of Customers

Golden State and ORA used the five-year average annual change by customer class methodology to estimate the number of customers for the test year, as prescribed in D.07-05-062. The estimate for Arden Cordova took into account the ongoing switching of customers from flat rate to metered billing. Tables 4-1 to 4-9 in the settlement agreement show the forecast number of customers for Test Year (TY) 2016, as well as 2017, and 2018, for each ratemaking area. The totals reflect the same totals that appear in Table 4-C of Exhibits GS-1 to GS-9.³⁰ No party objected to the figures shown in the tables and we find them to be reasonable.

4.2.2. Usage Per Customer

Tables 4-10 to 4-18 show the settlement forecast annual usage per customer for each of Golden State's ratemaking area for TY2016. The settling parties initially used a five-year average or two-year average depending on customer class, as well as recorded 2013 usage for certain residential sales forecasts and commercial sales forecasts. However, in order to account for the statewide 25 percent reduction in water usage from 2013 levels,³¹ Golden State submitted revised forecasts. ORA agreed with the methodology used by Golden State in incorporating the mandatory reduction plus a three percent usage rebound assumed to occur after the drought mandate expired on February 2016. Additionally, parties agreed that Golden State will include testimony and

³⁰ Exhibits GS-1 to GS-9 are the results of operations for each of Golden State's ratemaking areas.

³¹ Executive Order B-29-15 mandated a statewide reduction of 25 percent from 2013 levels.

workpapers in future GRC filings regarding sales for special contracts.³² No party objected to the figures shown in the tables and we find the figures to be reasonable.

4.2.3. Water Loss

Table 4-19 shows the agreed upon figures for water loss for each of Golden State's ratemaking areas. Golden State and ORA had the same figures for all ratemaking areas except for the Santa Maria CSA and Region 2. Table 4-19 reflects the settlement figures for those two areas which are close to the midpoint of the initial estimates of Golden State and ORA. No party objected to the figures shown in the table on water loss and we find the figures to be reasonable.

4.2.4. Request to Lift 10 Percent Cap on WRAM/MCBA

To address the 25 percent statewide reduction of potable urban water usage mandated by Executive Order B-29-15, the settling parties request that the 10 percent cap on WRAM and Modified Cost Balancing Account (MCBA) surcharges be temporarily lifted from 2016 to 2018. Ojai Flow opposed this request stating that this is not in the public interest and not supported by the record, and is premature since WRAM and MCBA charges are being addressed in Rulemaking (R.) 11-11-008.³³

Examining the testimony and evidence presented, we find that Golden State presented evidence to support its request to temporarily lift the 10 percent cap on WRAM and MCBA charges. Witness Garon provided

³² Golden State provides water to some customers under special contracts, at discounted rates.

³³ R.11-11-008 is the Order Instituting Rulemaking on the Commission's Own Motion into Addressing the Commission's Water Action Plan Objective of Setting Rates that Balance Investment, Conservation, and Affordability for Class A and Class B Water Utilities.

testimony³⁴ that because of the drought and the mandatory water reduction, in certain circumstances, it would take Golden State more than three years to amortize WRAM and MCBA charges. We agree that this would result in further inter-generational transfer issues as customers are likely to move in and out of their residences within the time period it would take Golden State to recover WRAM and MCBA charges. Inter-generational issues result in the transfer of costs of serving one group of customers to another group of customers due to delay in inclusion of these costs in rates. Golden State and ORA also presented tables showing historical WRAM and MCBA balances³⁵ and examination of these tables support the settling parties' request. With respect to the issue of WRAM and MCBA surcharges being comprehensively addressed in R.11-11-008, the assigned ALJ stated at the beginning of the proceeding that this matter will be addressed in this proceeding although it may later on be superseded by another proceeding.

Based on the above, we find that the request to temporarily lift the 10 percent cap on WRAM and MCBA charges for the current rate cycle, as provided in section 4.5 of the Settlement Agreement is reasonable, supported by the evidence, and should be adopted.

4.3. Labor

There are existing labor expenses and issues that are disputed which are addressed in the discussion of disputed issues.

³⁴ Exhibit GS-132.

³⁵ Exhibits GS-133 and ORA-12.

4.4. Administrative and General Expenses

Administrative and General (A&G) expenses are comprised of various expense accounts described below. Golden State generally utilized an inflation-adjusted five-year average methodology to forecast its A&G functions. ORA utilized a similar methodology with some exceptions. Additionally, Golden State and ORA agreed to use the most up-to-date information available in connection with inflation-adjusted estimates, and not to litigate customer growth factors and the removal of selected dues and expenses related to A&G.

4.4.1. Office Supplies

Office supplies are comprised of various sub-accounts specified in Exhibit GS-19.³⁶ Golden State's and ORA's initial forecasts differed as a result Golden State's application of customer growth and ORA's recommended adjustments eliminating non-recurring costs, removing charitable, service and chamber of commerce distributions and adjustments to telecommunication expenses. The two parties however, agreed on a compromise forecast for office supplies as shown in the table in section 7.1 of the Settlement Agreement.³⁷ Generally, the settlement figures are less than Golden State's initial forecast and greater than ORA's initial forecast for Office Supplies.

4.4.2. Property Insurance

Expenses for property insurance are included in the Revenues and Expenses portion of General Office, which is discussed in section 4.9.3 of this decision.

³⁶ See Exhibit GS-19 at 14 to 16.

³⁷ The table is at 79 of the Settlement Agreement.

4.4.3. Injuries and Damages

Expenses for injuries and damages are forecast at the general office level and then allocated to the CSAs and district offices. Golden State and ORA agreed on the injuries and damages forecast expenses for a majority of CSAs set forth in the table in section 7.3 of the Settlement Agreement³⁸ but are in dispute with respect to injuries and damages expenses for the Northern District, Coastal District, Central District, Southwest District, Foothill District, Mountain/Desert District, and Orange County District. The disputed areas are discussed in the section on disputed cost items.

4.4.4. Pension and Benefits

Pension and benefits costs include costs incurred for employee benefit programs such as pension plan costs, postretirement benefit costs, costs for the Supplemental Executive Retirement Plan (SERP), the employer portion of Golden State's 401k plan, the employer's portion of group health insurance costs, stock-based awards costs, and annual incentive bonuses.

Similar to injuries and damages, pension and benefits are likewise forecast at the general office level and then allocated to CSAs and district offices. The settling parties did not come to an agreement and are in dispute with regards to expenses for pension and benefits. These are discussed in the section on disputed cost items.

4.4.5. Business Meals

Business meals include meals while travelling and company meals provided to employees during company events. Golden State and ORA agreed

³⁸ The table is at 80 of the Settlement Agreement.

to the forecast for business meals shown in the table in section 7.5 of the Settlement Agreement.³⁹

4.4.6. Outside Services

Outside services expenses include costs for consulting, legal fees, and costs for other outside services such as facility rental, fees for conferences, etc.

Golden State and ORA agreed to the estimated costs for outside services shown in the table appearing in section 7.6 of the Settlement Agreement.⁴⁰

4.4.7. Miscellaneous

Miscellaneous expenses include membership dues, supplies not assignable to other expense accounts, and printing. The settling parties agreed to the forecast expenses for miscellaneous A&G expenses shown in the table in Section 7.7 of the Settlement Agreement.⁴¹

4.4.8. Allocated General Office and District Office Expenses

These expenses refer to expenses allocated to the CSAs from the General Office. The settling parties are in dispute with regards to allocated general office expenses for corporate support and centralized operations support, and allocated district office expenses. These items are discussed in the disputed cost items section.

³⁹ The table is at 82 of the Settlement Agreement.

⁴⁰ The table is at 83 of the Settlement Agreement.

⁴¹ The table is at 84 of the Settlement Agreement.

4.4.9. Other Maintenance of General Plant

These expenses are comprised of various sub-accounts listed in Exhibit GS-19.⁴² Golden State utilized a five-year historical average method to forecast expenses for other maintenance of general plant except for Bay Point where it utilized a four-year historical average. ORA recommended elimination of several non-recurring expenses. The settling parties agreed to the forecast expenses shown in the table in section 7.11 of the Settlement Agreement.⁴³

4.4.10. Rent

Rent expenses include rent and lease expenses not provided elsewhere such as office space expenses, public storage space, etc. The forecast for rent expenses were based on the most recent leases and common area maintenance charges. Golden State and ORA agreed to the forecast shown in the table for rent expenses shown in section 7.12 of the Settlement Agreement.⁴⁴

4.5. Operations and Maintenance Expenses

Operations and Maintenance (O&M) expenses are comprised of various accounts described below. Golden State utilized an inflation-adjusted five-year average methodology to forecast its O&M expenses. ORA utilized a similar methodology with a few exceptions as described in the following subsections under O&M expenses. Additionally, Golden State and ORA agreed to use the most up-to-date information available in connection with inflation-adjusted estimates, and not to litigate customer growth factors and removal of selected dues and expenses related to O&M.

⁴² See Exhibit GS-19 at 21.

⁴³ The table is shown at 78 of the Settlement Agreement.

⁴⁴ The table for rent expenses is shown at 89 of the Settlement Agreement.

4.5.1. Billing and Payment Processing Allocated From General Office

Billing and payment processing include several items such as labor and pension benefits which are in dispute. Parties however, agree that billing and payment processing costs will be allocated based on the allocation percentages specified in Appendix G of the Settlement Agreement.

4.5.2. Other Operating Expenses

Other operating expenses are comprised of various account expenses described in Exhibit GS-19.⁴⁵ ORA recommended removal of certain non-recurring items from Golden State's requested amounts. Parties agreed on the settlement figures shown in the table of the forecast for other operation expense appearing in section 8.2 of the Settlement Agreement.⁴⁶

4.5.3. Uncollectible Rates

Uncollectible expenses are accounts receivables that have not yet been received by Golden State from ratepayers. Expenses in this account include the amount of uncollectibles net of recoveries. Golden State and ORA utilized a five-year average of actual amounts expensed to calculate uncollectible rates for each ratemaking area. The agreed upon forecasts are shown in the table under section 8.3 of the Settlement Agreement.⁴⁷

⁴⁵ See Exhibit GS-19 at 6-8.

⁴⁶ The table is shown at 93 of the Settlement Agreement.

⁴⁷ The table is shown at 94 of the Settlement Agreement.

4.5.4. Other Maintenance Expenses

Other maintenance expenses are comprised of various accounts listed in Exhibit GS-19.⁴⁸ Golden State utilized a five-year average methodology to determine other maintenance expenses. ORA recommended removal of the customer growth factor. Parties agreed not to litigate the customer growth factor and agreed on the figures shown in the table for other maintenance expenses shown in the table in section 8.4 of the Settlement Agreement.⁴⁹

4.5.5. Chemical Expenses

Golden State utilized various inflation-adjusted data averaging methodologies to calculate chemical costs. ORA corrected several calculation errors which it had found and the settling parties agreed on the forecast for chemical expenses shown in the table in section 8.5 of the Settlement Agreement.⁵⁰ The settlement figures are lower than both Golden State's and ORA's initial forecasts due to consideration of the reduction of water usage from the Governor's drought mandate.

4.6. Taxes

4.6.1. Property Taxes

Both Golden State and ORA utilized a five-year average methodology to derive their forecast for property or ad valorem taxes. The settling parties agreed to use the estimated tax rates shown in the table in section 9.1 of the Settlement Agreement.⁵¹

⁴⁸ See Exhibit GS-19 at 11-12.

⁴⁹ The table is shown at 95 of the Settlement Agreement.

⁵⁰ The table is shown at 97 of the Settlement Agreement.

⁵¹ The table is shown at 98 of the Settlement Agreement.

4.6.2. Payroll Taxes

According to Golden State, payroll taxes consist of Federal Insurance Contribution Act tax, Federal Unemployment Insurance tax, and State Unemployment Insurance Tax.⁵² The settling parties agreed that final payroll taxes should be based on a payroll tax rate of 8.35 percent to be applied to the adopted labor expenses which are being disputed.

4.6.3. Local Taxes

Golden State utilized a five-year average methodology and applied the five-year recorded rate of local taxes to all revenues to arrive at its forecast. ORA agreed that Golden State's methodology nets out uncollectibles. The settling parties agreed to the local tax rates shown in the table in section 9.3 of the Settlement Agreement.⁵³

4.6.4. Income Taxes

Golden State and ORA agreed to the application of an 8.84 percent income tax rate for California Corporate Franchise Taxes and to a 35 percent income tax rate for federal income taxes.

4.6.5. Deferred Income Taxes

Golden State's estimated Accumulated Deferred Federal Income Tax (ADFIT) reflects its plant estimates, any accelerated depreciation which includes bonus depreciation provision, and the implementation of new Internal Revenue Service (IRS) Tangible Property Regulations. Bonus depreciation refers to a situation where a taxpayer is allowed to claim an additional amount of

⁵² Exhibit GS-19 at 23.

⁵³ The table is shown at 99 of the Settlement Agreement.

deductible depreciation above what is normally available. Essentially, bonus depreciation is a form of accelerated depreciation. Golden State applied bonus depreciation through 2013. However, the Tax Increase Prevention Act (TIPA) was passed into law on December 19, 2014, which extended the bonus depreciation provision to apply to qualifying plant placed in service throughout 2014.

In the Settlement Agreement, the settling parties agreed that the forecast ADFIT should reflect the implementation of the IRS Tangible Property Regulations and extension of bonus depreciation through 2014. We find this to be reasonable because the extension of bonus depreciation through 2014, affects the calculation of Golden State's tax depreciation expenses in this GRC. We also note that when the TIPA was enacted extending bonus depreciation through 2014, Golden State had already filed its GRC application.

4.7. Sources of Supply and Volumes

Golden State reviewed historical usage, expected supply developments, sale projections, and system constraints to forecast the supply level of water from wells production, surface water, and purchased water. ORA is in agreement with the water supply volumes presented in section 10⁵⁴ of the Settlement Agreement. No party objected to the figures shown in the sources of supply and volumes tables and we find that the figures are reasonable.

4.8. Conservation Expenses and Programs

In the Settlement Agreement, Golden State and ORA agreed on an annual budget of \$1,070,748 for 2016, 2017, and 2018, for conservation expenses and

⁵⁴ Pages 101 to 103 of the Settlement Agreement contain the tables for sources and supply volumes for the different ratemaking areas.

programs. A breakdown of the three-year totals for each ratemaking area is shown in Table 11.1 in section 11 of the Settlement Agreement.⁵⁵ The settling parties also agree that funds cannot be moved between ratemaking areas and that costs for certain programs be subject to spending caps. No party objected to the budget for conservation expenses and programs and we find the agreed-upon figures and ancillary agreements to be reasonable.

4.8.1. Conservation Expense Balancing Account

The settling parties request that the Commission approve the establishment of separate one-way balancing accounts in each of Golden State's ratemaking areas for the duration of this GRC cycle. The settling parties also agree that Golden State shall not exceed the proposed budget in each ratemaking area, and at the end of this GRC period, will return any unspent funds to ratepayers.

We find the request for the establishment of a Conservation Expense One-Way Balancing Account (CEOWBA) for each ratemaking area for this GRC period to be reasonable. The CEOWBA will ensure that funds authorized for conservation programs will be tracked and spent for such purpose. The one-way balancing account also ensures that Golden will not exceed the approved funding for these programs, and that any unspent funds will be returned to ratepayers.

⁵⁵ Table 11.1 at 105 of the Settlement Agreement shows the total budget for conservation expenses and programs for 2016, 2017, and 2018, for each ratemaking area.

4.9. General Office

4.9.1. Plant Additions

Section 12 of the Settlement Agreement identifies the disputed and undisputed capital budgets forecast for General Office Plant Additions. The settling parties did not reach an agreement on many of Golden State's requested capital budgets for this cost category. Golden State's requested amount for General Office Plant Additions for 2015, 2016, and 2017, is \$17.3 million, while ORA's recommended amount is \$5.5 million.

Differences were with regard to need for certain capital projects, and projected costs for other projects. There were also differences regarding costs for Luxury Vehicles, General Office, CWIP, Annual Software License Renewals and Maintenance Agreements, and Improvements for the Anaheim Office. The disputed capital projects for General Office shall be discussed and addressed in the discussion of disputed issues later in the decision.

With respect to the undisputed capital projects and expenditures that are listed in section 12 of the Settlement Agreement, we note that no party raised objections to these projects and expenditures. We also find these to be reasonable and supported by the testimonies and workpapers submitted by Golden State and ORA.

The settling parties also agree on the calculation of Depreciation Accrual Rates and agreed to apply the composite depreciation rates shown in section 12.9 of the Settlement Agreement, to calculate revenue requirements for Corporate Support, Centralized Operations Support, and Billing and Payment Processing.⁵⁶

⁵⁶ At 131 of the Settlement Agreement.

This issue was also not objected to by any party and we also find the agreement regarding calculation of depreciation accrual rates to be reasonable.

4.9.2. Allocation

In section 13 of the Settlement Agreement, for purposes of allocating General Office costs, the settling parties agreed to separate General Office into three areas: (1) Corporate Support; (2) Centralized Operations Support Department; and (3) Billing and Payment Processing.

4.9.2.1. Corporate Support

The settling parties agree that the allocation for Corporate Support should be 16.0 percent for American States Utility Services (ASUS), 8.64 percent to Bear Valley Electric Service (BVES), and 75.36 percent to Golden State Water Operations.

4.9.2.2. Centralized Operations Support Department

The settling parties agreed to allocate Centralized Operations Support to its customer service areas using an equivalent number of customers methodology.

4.9.2.3. Billing and Payment Processing

The settling parties agree that the allocation for Billing and Payment Processing should be 10.29 percent to BVES and 89.71 percent to Golden State Water Operations.

None of the parties made any objections to the allocation factors and percentages specified in section 13 of the Settlement Agreement and we find these to be reasonable.

4.9.3. Revenues and Expenses

In section 14 of the Settlement Agreement, the settling parties agreed on expenses for the following General Office expense categories: Other Revenues; Common Customer Account; Postage; All Other Operating Expenses; Office Supplies and Expenses; Property Insurance; Injuries & Damages; Business Meals; Regulatory Expenses; Miscellaneous Expenses; Rent; Capitalized A&G; and Local Taxes.⁵⁷

The settling parties also agreed that Property Taxes and Local Taxes should be calculated using the methodology utilized by Golden State, but reflecting the adopted capital budgets and labor expenses, respectively. The total capital budgets and labor expenses were not settled and are in dispute. In addition, the settling parties agreed to use escalation rates based on the latest available ORA memos.

No party opposed the expense forecast for General Office Revenues and Expenses categories mentioned above and after examining the evidence presented, we find that the proposed amounts and methodologies for calculating property and local taxes to be reasonable and supported by the evidence.

4.9.3.1. General Office Outside Services

Table 14.2 contains the agreed-upon allocations for General Office Outside Services.⁵⁸ The settlement amount for outside services including the stipulated General Office allocation of \$5.836 million is \$1.291 million less than Golden State's requested amount of \$7.127 million. Both Claremont and

⁵⁷ The tables containing the agreed-upon amounts for these categories are on section 14 of the Settlement Agreement, specifically at 135 to 155.

⁵⁸ See Table 14.2 at 148 to 149 of the Settlement Agreement.

Ojai Flow objected to the settlement amount proposed for General Office Outside Services.

Claremont opposes the requested increase of \$1 million for Outside Services, which appears in section 14.12 of the Settlement Agreement. Claremont states that rates in this GRC should not be used to fund any condemnation defense costs in Claremont, Ojai, or any other location. Claremont also argues that the Settlement Agreement and testimony provided during hearings were not clear how the \$1 million increase being requested will be spent. Claremont also argues that spending on outreach activities as testified to by witness Wahhab, actually results in monies being spent for condemnation defense. Similar to Claremont, Ojai Flow opposes the requested increase of \$1 million for outside services stating a need to further define the term “condemnation defense costs.”

Regarding Claremont’s and Ojai Flow’s opposition to the requested increase of \$1 million for Outside Services, we considered the evidence presented and arguments raised by the parties and note that section 14.12 of the Settlement Agreement clearly states that none of these funds shall be used for any condemnation defense in Claremont and Ojai, or for any future condemnation defense costs. In addition, the funds requested in the Settlement Agreement were derived from an inflation-adjusted three-year average of actual recorded costs for 2011 to 2013. Golden State’s original request was for an increase of \$1.5 million for outside services and customer outreach and after various adjustments recommended by ORA, several costs that may be associated with condemnation defense appear to have been removed. The requested amount of \$5.836 million for Outside Services reflects a reduction of \$1.291 million for outside services and customer outreach compared to the original request, which represented a \$1.5 million increase from the previous GRC cycle. The reduction

of \$1.291 million from Golden State's original request seems to account for the \$1 million objected to by Claremont and Ojai Flow that could have been used for condemnation defense. Based on the above, we find the resulting request of \$5.836 million for Outside Services in the Settlement Agreement is reasonable and should be adopted.

4.9.3.2. Disputed Revenues and Expenses Cost Categories

Costs for Pension and Benefits, Maintenance of General Plant, and General Office Labor are in dispute or contain disputed costs and these are addressed in the discussion of disputed topics.

4.10. Rate Design

Golden State did not propose any rate design changes and the settling parties agreed to keep existing tier differentials for this GRC cycle. However, for the next GRC cycle, the settling parties agree that Golden State will consider either a two or three-tier rate structure for residential classes in Arden Cordova and Clearlake. The settling parties also agreed that Golden State will propose a fixed percentage price differential for the tiers in Ojai's non-residential tariff. The proposals for rate design changes for the next GRC cycle in Arden Cordova, Clearlake and Ojai, were recommended by ORA.

4.11. Customer Service Reporting

The settling parties agreed that Golden State will continue the customer service improvement measures specified in the Settlement Agreement⁵⁹ in the

⁵⁹ The settlement in the prior GRC period required Golden State to (1) analyze customer contact investigation reports in detail to identify any on-going customer issues, (2) identify measures to improve customer service, and (3) provide progress reports to the Commission every six months.

prior GRC and adopted in D.13-05-011. In addition, Golden State will be required to include in its semi-annual and annual reports, detailed analysis and justification of the number and dollar amount of courtesy adjustments issued in each CSA.

4.12. Purchased Water, Pump Tax, and Purchased Power

Supply expenses are made up of purchased water, pump tax, and purchased power expenses. The settling parties agreed that the latest rates should be used to calculate supply expenses.

For Bay Point, the settling parties agreed on a settlement amount of \$1,760,262 for 2016. There were no disputes regarding Golden State's requested amounts for the other regions.

For flow violations in Regions 2 and 3, the settling parties agreed on settlement amounts of \$126,000 and \$7,500 respectively, for TY2016, reducing Golden State's initial requests by more than 50 percent. There were no disputes regarding Golden State's requested amounts for the other regions.

4.13. Special Requests

4.13.1. Special Request #1

The settling parties agreed on various resolutions concerning 32 different balancing and memorandum accounts maintained by Golden State. A description of these 32 accounts and the various resolutions regarding each one are adequately described in section 18.1 of the Settlement Agreement. Each balancing and memorandum account was resolved where the resolution was either to close the account, continue the account, agree on the balance remaining in the account, agree that no changes in the account should be made, or add a small surcharge. In addition, the settling parties agree that Golden State include

all balancing and memorandum accounts in its preliminary statements and to use the same names for reporting account balances as appears on Golden States preliminary reports. Also, the settling parties agreed that Golden State develop or improve existing internal procedures in maintaining and reporting lists of accounts and balances in those accounts. These internal procedures are to be reported in Golden State's next GRC. With respect to the following seven accounts: Rule 14.1 Premium Charges net of WRAM; Clearlake Supply Cost Balancing Account; Region 1 Interim Rate Shortfall Memo Account; Settlement Agreement Balancing Account; Cost of Capital True-up Memo Account; Temporary Interest Rate Balancing Account; and 2014 Water Conservation Memo Account, the settling parties agree that Golden State will file a Tier 2 Advice Letter to establish a surcredit to amortize company-wide residual balances totaling \$1,818,800. Accounts that are district-specific should be amortized at the district level.

After examining the different resolutions regarding each balancing and memorandum account in section 18.1 of the Settlement Agreement, and reviewing testimony presented, we find that the various resolutions regarding each balancing and memorandum account are reasonable. ORA sufficiently reviewed the accounts and its recommendations to improve transparency, maintenance, and accurate reporting of balances in each account, which Golden State agreed to, should be granted. Likewise a Tier 2 Advice Letter to establish a refund totaling \$1,818,800 to the seven accounts described above should be approved.

4.13.2. Special Request #2

The settling parties agreed that Golden State withdraw its request for establishment of a balancing account for group medical insurance costs.

4.13.3. Special Request #4

The settling parties agreed that recalculation of the Aerojet Water Litigation memorandum account surcharge in the Arden Cordova CSA, be based on the stipulated June 30, 2014 account balance and sales forecasts and the adopted proportion of revenue from flat and metered customers.

We find the above to be reasonable and add that the settlement provision was based in part on the request by the assigned ALJ for Golden State to review its projections for 2016, in order to reflect reductions in water usage consistent with the Governor's mandated statewide reduction in water usage.

4.13.4. Special Request #5

The settling parties agreed that pursuant to D.10-12-059,⁶⁰ wherein the Commission authorized Golden State to include costs for 32 pipeline and four well projects into rates in Region 1, ratebase offsets filed through five advice letters in Arden Cordova, Bay Point, Ojai, and two for Santa Maria,⁶¹ be incorporated in Golden State's revenue requirement. None of the other parties objected to Special Request #5 and we find that the request merely implements the Commission's decision in D.10-12-059 and should be approved.

4.13.5. Special Request #6

The settling parties agreed that Golden State will withdraw its request to establish a Sales Reconciliation Mechanism in ratemaking areas where WRAM-related sales volumes would have to be adjusted during escalation years 2017 and 2018.

⁶⁰ Issued on December 16, 2010.

⁶¹ Advice Letter Nos. 1558-WA (Arden Cordova, Bay Point, Ojai, and Santa Maria) and 1575-W (Santa Maria).

Instead, Golden State will file a Tier 1 Advice letter on the same date as Golden State's escalation filings for 2017 and 2018, if recorded WRAM sales volumes in any ratemaking area vary by more than 10 percent from adopted WRAM-related sales volumes for the calendar year and if mandated drought reductions are still in effect. In the advice letter, Golden State will adjust sales volumes by 50 percent of the WRAM variance and revise the revenue requirement for the affected ratemaking area solely to flow-through the change associated with the adopted sales forecast for purchased water, purchased power, and pump tax expenses.

No party objected to the above and we find the withdrawal of the request to establish a Sales Reconciliation Mechanism and filing of an Advice Letter to adjust sales volumes if recorded sales volumes vary by more than 10 percent to be reasonable in light of the fact that the parties agreed on a reduced sales forecast that more accurately reflects the Governor's Executive Order mandating a 25 percent reduction in water usage from 2013 levels.

4.13.6. Special Request #7

The settling parties agreed on the establishment of a Special Facilities Fee in Santa Maria of \$2,400 per lot for a meter service size of 1-inch or less and the establishment of a Connection Fee of \$2,050 in Bay Point, and \$2,500 in Clearlake for a 5/8 x 3/4-inch meter. No other party objected to this request and we find the request with the agreed upon amounts to be reasonable and should be adopted. In addition, the requested Special Facilities and Connection Fees were already authorized by the Commission in D.14-09-009.

4.13.7. Special Request #8

The settling parties agreed that no changes be made to Golden State's current rate design for this rate cycle. There were no objections to this request.

4.13.8. Special Request #9

Golden State and ORA agreed that Golden State's request for a recycled water tariff in its San Gabriel CSA is proper. No party objected to this request and we find the request to be reasonable. The tariff shall be applicable to all metered recycled (non-potable) water service for irrigation and industrial use except those covered under Tariff Schedule R3-1-R.

4.13.9. Special Request #10

The settling parties agreed that the portions of the Settlement Agreement adopted by the Commission in D.14-09-009⁶² be incorporated in the final decision of this proceeding. We find this to be reasonable for the same reasons given regarding Special Request #5.

4.13.10. Special Request #11

The settling parties agreed that the Commission incorporate findings in A.13-10-011⁶³ into the decision in this proceeding. A final decision in said application was rendered by the Commission in D.15-06-049 on June 25, 2015. We find the request to be reasonable and agree that applicable findings in D.15-06-049 should be incorporated into this decision.

4.13.11. Special Request #12

The settling parties were in agreement regarding Golden State's request to establish Cross Connection Control Fees, Fire Flow Testing Fees, and to increase Reconnection Fees. In addition, Golden State will give customers the option to

⁶² D.14-09-009 is a decision from a re-hearing of D.10-11-035.

⁶³ A.13-10-011 concerns the sale of the public utility water assets of Rural Water Company to Golden State and incorporation of the Rural Water System service area into Golden State's Santa Maria CSA.

choose when to reconnect and will avoid disconnections on Fridays and days prior to a holiday. No other party opposed this special request and we find the request to be reasonable.

4.13.12. Special Request #13

The settling parties agreed to include sprinkler rates for non-residential customers in all of Golden State's ratemaking areas. The settlement slightly reduces Golden State's proposed rates. No party objected to the request and we find the request to be reasonable especially since the sprinkler rate calculations are based on a methodology developed by the Commission's Water Division.

4.13.13. Special Request #14

The settling parties agreed that Golden State request Commission authorization to open a memorandum account to track O&M costs not covered by the First 5 Sacramento Commission funding for a project to implement fluoridation of water in the Arden Cordova CSA. Golden State will only track costs until 2018. Golden State will seek to include funding levels for the project for 2019 onwards in its next GRC cycle. There were no objections to the request and we find that the request is reasonable and should be granted. Golden State shall file a Tier 2 Advice Letter to add this memorandum account to its Tariff Preliminary Statements.

4.13.14. Disputed Special Requests

Special Request #3, was not settled and is addressed in the discussion of disputed issues.

4.14. Other Issues

In addition to the above, the settling parties also agreed to use a two-year average to forecast courtesy adjustments,⁶⁴ to change the California Alternative Rates for Water (CARW) discount to 20 percent instead of a CARW discount based on a monthly average,⁶⁵ and have resolved that witness Denise Kruger did not submit false testimony and did not intentionally mislead the Commission.

After review of the evidence including the testimonies sponsored by Ms. Kruger, we find the agreements regarding Other Issues specified in section 19 of the Settlement Agreement to be reasonable.

4.15. Comments Regarding the Settlement Agreement

4.15.1. Claremont

Claremont opposes the requested increase of \$1 million for Outside Services, which appears in section 14.12 of the Settlement Agreement. Claremont states that rates in this GRC should not be used to fund any condemnation defense costs in Claremont, Ojai, or any other location. Claremont also argues that the Settlement Agreement and testimony provided during hearings are not clear how the \$1 million being requested will be spent. Claremont also argues that spending on outreach activities as testified to by witness Wahhab,⁶⁶ actually results in monies being spent for condemnation defense.

⁶⁴ Table 19.1 of the Settlement Agreement shows the settlement amount of courtesy discounts in each ratemaking area.

⁶⁵ Table 19.2 shows the settlement amount for CARW discounts for each ratemaking area.

⁶⁶ Exhibit GS-29.

In addition to the above, Claremont also recommends that the Settlement Agreement be modified to require Golden State to archive all of the advice letters that Golden State files to the Commission.

4.15.2. Ojai Flow

Similar to Claremont, Ojai Flow opposes the requested increase of \$1 million for outside services stating a need to further define the term “condemnation defense costs.” In addition, Ojai Flow opposes the proposed lifting of the 10 percent cap on total net WRAM and MCBA charges stating that this is not supported by the record, is not in the public interest, and is premature considering that R.11-11-008 will address WRAM and MCBA charges. Ojai Flow also proposes that Golden State reimburse customers that spend out-of-pocket money for personal water conservation and opposes spending on water usage education in schools, conservation devices, and free sprinkler nozzles. Ojai Flow also states that an urban water management plan for Ojai is not necessary and contests the requested amount for luxury vehicles.

4.15.3. Golden State and ORA

Golden State and ORA filed a joint response to the comments by Claremont and Ojai Flow addressing the arguments raised by the two parties. Regarding the requested increase of \$1 million for Outside Services, Golden State and ORA state the Settlement Agreement provides that none of these funds are to be used for condemnation defense and that the amount of \$1 million was based on 2009 to 2011 recorded costs. Golden State and ORA also added that the request for \$1 million for Outside Services is part of an integrated agreement, reflecting a set of concessions and trade-offs and that the Commission should refrain from upsetting the balance achieved by the settling parties by singling out one provision or cost item in the agreement.

With respect to the request to lift the 10 percent cap on WRAM and MCBA charges, Golden State and ORA argue that this request is fully supported by the testimony of Mr. Garon.⁶⁷ Regarding reimbursement of out-of-pocket expenses for water conservation, Golden State and ORA point out that these are addressed in the Settlement Agreement.

Regarding the recommendation to archive all advice letters, objection to the urban water management plan and requested amount for luxury vehicles, Golden State and ORA argue that these issues are not included in the Settlement Agreement and should be disregarded.

4.15.4. Discussion

Under Rule 12.4 of the Rules of Practice and Procedure, the Commission may propose alternative terms to the parties and allow reasonable time to either accept such terms, or to request other relief.⁶⁸ While we understand that a settlement agreement represents an integrated agreement which contain various concessions and trade-offs from parties to a settlement agreement, the Commission should not be prohibited from disapproving, rejecting or proposing modifications to certain provisions in a settlement agreement that are not supported by the evidence, not in accordance with law, or not in the public interest. In any case, any party to a settlement agreement may elect not to accept modifications proposed by the Commission, and withdraw its request to adopt a proposed settlement agreement, or to seek other relief available.

⁶⁷ Exhibit GS-19.

⁶⁸ Rule 12.4 ...Upon rejection of the settlement, the Commission may take various steps including the following: ... (c) Propose alternative terms to the parties to the settlement which are acceptable to the Commission and allow parties reasonable time within which to elect to accept such terms or to request other relief.

Regarding the various comments on the requested increase of \$1 million for Outside Services, this issue is addressed in section 4.9.3.1 of this decision.

Regarding the request to lift the 10 percent cap on WRAM and MCBA charges, this issue is discussed in section 4.2.4 of the decision, addressing the request to lift the 10 percent cap on WRAM/MCBA charges.

Regarding the recommendation to order Golden State to archive all of its memorandum and balancing accounts, the objection to the urban water management plan, and objection to the amount requested for luxury vehicles, we agree with Golden State and ORA that these issues or provisions are not part of the Settlement Agreement, and any comments or objections thereto should be raised in the main proceeding. Incidentally, both Claremont and Ojai Flow reiterated the same issues in their opening briefs and so we shall address these issues, together with other non-settled portions of the application.

5. Adoption of the Settlement Agreement

The Commission has specific tests for granting motions to approve settlement agreements. Rule 12.1(d) provides that the Commission shall not approve a settlement agreement, unless it is reasonable in light of the whole record, consistent with law, and in the public interest. After thorough review of the Settlement Agreement between Golden State and ORA, review of comments and objections to specific portions of the Settlement Agreement by Claremont and Ojai Flow, and the various testimonies admitted into evidence, we find that the Settlement Agreement satisfies Rule 12.1(d), as well as the Commission's other requirements specified in Rule 12.1 for approval of formal settlements.

Prior to adopting a settlement, the Commission must be satisfied that the parties have a sound and thorough understanding of the application and of all the underlying assumptions and data included in the record. This level of

understanding of the application and development of an adequate record is necessary to consider a settlement as required by Article 12 of the Commission's Rules of Practice and Procedure.

The Settlement Agreement between Golden State and ORA is a detailed proposal and shows the differences in final litigation positions and the agreed-upon compromises in each item where settlement was reached. Additionally, the Settlement Agreement also identifies items in the GRC that were not settled.

The settling parties complied with Rule 12.1(a) by making the appropriate filings in a timely manner and noticing of a settlement conference. The Motion and Settlement Agreement contain a statement of the factual and legal considerations adequate to advise the Commission of the scope of the settlement, and of the grounds for its adoption. The Settlement Agreement also includes sufficient information to determine what was allowed for rates and what Golden State is obliged to do.

Golden State and ORA submitted extensive testimony containing analyses and recommendations concerning the application. After review of the above, as well as the various briefs and pleadings filed by both parties, and after going through two weeks of evidentiary hearings, we are able to conclude that the parties to the Settlement Agreement have demonstrated a thorough understanding of the Application. We therefore conclude that the proposals in the Settlement Agreement resolving many of the issues in this proceeding are made by parties that are competent and well prepared to make informed choices with respect to terms agreed upon in the settlement.

We also find that the Settlement Agreement is reasonable in light of the record as a whole. The Settlement Agreement represents various compromises

made by the settling parties. Each of the issues resolved in the Settlement Agreement is addressed by evidence in the record and most of the proposed amounts in the Settlement Agreement fall within the ranges recommended by parties in the proceeding. Overall, the amounts agreed upon are less than Golden State's initially requested amounts. In addition, both the monetary and non-monetary components made in the Settlement Agreement reflect compromises by the settling parties from initially recommended positions. The settling parties actively participated in the proceedings and the issues resolved in the Settlement Agreement reasonably resolve issues raised in the proceedings.

The proposals in the Settlement Agreement are the result of arms-length negotiations between the settling parties. In addition, the other active parties in the proceedings that are not parties to the Settlement Agreement do not contest or oppose a majority of the settled terms and the specific provisions that were opposed were addressed in section 4.15 of this decision.

The settling parties set aside many of the disputed factual and legal issues and have agreed on resolving these disputes in the Settlement Agreement. We find that the proposed resolutions of these disputed issues are within the Commission's jurisdiction and do not contravene or compromise any statutory provision or prior Commission decision.

The Commission has a public policy favoring the settlement of disputes to avoid costly and protracted litigation and the Settlement Agreement the proposals and resolutions set forth therein satisfy the Commission's public policy preference of favoring settlements.

Parties to the Settlement Agreement represent the interests of the Applicant and its customers. Golden State represents the interests of its shareholders and provides necessary water services to its customers while ORA

represents the interests of residential and commercial customers. Thus, we find that the settling parties represent the interests of shareholders, customers, and ratepayers that have an interest and are affected by the services provided by Golden State.

The proposals and agreements in the Settlement Agreement serve the public interest by resolving competing concerns in a collaborative and cooperative manner. Approval of the Settlement Agreement provides a timely and complete resolution of many of the contested issues raised in the proceedings. The Settlement Agreement meets the tests for adoption by the Commission because the Settlement Agreement does not contravene (or compromise) any statutory provision or prior Commission decision, is consistent with the law, reasonable, and in the public interest.

Based on the above, we find that the Settlement Agreement meets the settlement standards of Rule 12.1(d), that the Settlement Agreement is reasonable in light of the record as a whole, is consistent with law, and is in the public interest. We have examined each proposal in the Settlement Agreement and find them to be reasonable. Moreover, most of the proposals, agreements and recommendations in the Settlement Agreement are presented as an integrated package of revenue requirement and rate recommendations and we conclude that all of these proposals, agreements and recommendations set forth in the Settlement Agreement should be approved.

6. Disputed Issues

6.1. Capital Projects

This section addresses the disputed capital projects requested by Golden State, including common issues relating to the requested projects, pipeline projects, and disputed projects in each of its three regions. Discussion of

capital projects in each of the three regions is subdivided by CSA in each region. Because of the number of capital projects being disputed, discussion will focus on the main points, issues, and arguments raised by the parties. This does not mean however, that other issues were not considered. All issues raised were reviewed, analyzed and considered in arriving at a decision with respect to each capital project that is disputed

Many of the capital projects discussed in this section include additional costs such as overhead costs, design costs, contingency costs, etc. and parties will sometimes incorporate assumed amounts of these additional costs into their forecast for specific projects. In view of this, approved amounts for capital projects shall be subject to adjustments based on our findings with respect to these additional costs, which are discussed in section 6.1.1 of this decision. Additionally, there may be slight variances between adopted amounts and amounts requested by Golden State or recommended by ORA due to rounding corrections.

6.1.1. Capital Projects Common Issues

Several projects that are designated in the Settlement Agreement as “Litigated*” will be resolved by resolution of common issues. These capital projects will therefore not be discussed individually.

6.1.1.1. Contingency Factor

For this GRC, Golden State is requesting to add a 10 percent contingency cost to its project budget for all capital projects.⁶⁹ Golden State cited recommendations of the Advancement of Cost Engineering’s Cost Estimate

⁶⁹ Exhibit GS-31.

Classification that a 10 percent contingency rate is consistent with industry standards and that the Commission has applied a 10 percent contingency rate for several other utilities that it regulates. Golden State also cited several factors that contribute to uncertainty of project costs.

6.1.1.1.1. Discussion

In prior GRCs,⁷⁰ the Commission approved a five percent contingency factor and explained factors considered in arriving at these decisions. For this GRC, we find that there is insufficient reason to justify deviating from the Commission's past decisions. Golden State's capital projects are presented with sufficient detail and most projects are projects that have been conducted before or are to replace or improve facilities. Golden State also relies on expert recommendations in preparing its capital forecast. Many projects have design components where a project can be fully scrutinized and studied prior to construction. Based on the above, we find that a five percent contingency factor for capital projects is reasonable and should be applied. This five percent contingency factor should be applicable to both capital projects and blanket budgets.

6.1.1.2. Design Cost

Golden State's capital projects include a design cost of 10 percent of the construction cost for pipeline projects, and 15 percent for non-pipeline projects. Projects exceeding \$500,000 have an additional 20 percent design cost or a total of 12 percent and 18 percent for pipeline and non-pipeline projects respectively.

⁷⁰ D.06-01-025 and D.08-01-025.

ORA does not object to the design cost for non-pipeline projects but recommends a seven percent design cost for pipeline projects.

6.1.1.2.1. Discussion

Design costs include a broad range of activities and include costs for permitting activities. Given the increasing complexity of obtaining various regulatory permits and compliance with regulatory laws, rules, policies and directives, we find that the proposed 10 and 15 percent design costs applied by Golden State to pipeline and non-pipeline projects respectively, including an additional 20 percent for all projects in excess of \$500,000, is reasonable and should be approved. In addition, we find that ORA did not fully substantiate and justify its recommended reduction.

6.1.1.3. Vehicle Replacements

Golden State is requesting to replace 65 vehicles throughout the company. The proposal requests that vehicles that have mileage in excess of 120,000 miles be replaced, as such vehicles typically incur maintenance costs that exceed their value.

ORA objects to the replacement of heavy duty trucks⁷¹ and states that Golden State should follow the California Department of General Services' (DGS) policy of replacing heavy duty trucks at a mileage in excess of 150,000, instead of 120,000. Golden State argues that the DGS standard should not apply to Golden State's heavy duty trucks which are used primarily in an urban setting and are subject to more frequent stop and go instances. Golden State adds that trucks that have 150,000 mileages have less salvage value.

⁷¹ Heavy duty trucks have a gross vehicle weight rating that exceeds 8,500 pounds.

6.1.1.3.1. Discussion

We are not persuaded by Golden State's arguments. We do not find substantial reason to deviate from applying the DGS mileage replacement standard to Golden State's vehicles. Accordingly, the replacement of heavy trucks should occur when mileages exceed 150,000 miles. Additionally, the reduced salvage value is offset by the additional usage time prior to replacement. The record shows however, that six vehicles identified by ORA as heavy trucks do not fall under the weight designation for heavy trucks and so we find that the following vehicles should be replaced at a mileage of 120,000 miles: Vehicle Nos. 1160; 1275; 1014; 1110; 2128; 501377. In sum, based on the above discussion, the mileage threshold for replacement of heavy trucks should follow the DGS standard which is 150,000 miles.⁷²

6.1.1.4. Urban Water Management Plans

Golden State requests funds for the purpose of updating its Urban Water Management Plans (UWMP) for 19 of its water systems. Golden State requests \$65,000 for each UWMP. ORA agrees with the request but recommends that the project be moved to 2016 instead of 2015. Ojai Flow objected that the UWMP is not needed in Ojai.

6.1.1.4.1. Discussion

After review of the record and arguments raised by the parties, we agree with ORA but find that it is reasonable to approve the UWMP in 2017 given that we are already in the 4th quarter of 2016. Regarding Ojai Flow's objection, on October 22, 2015, the Commission took official notice of a letter from the

⁷² Some heavy trucks are expected to surpass 150,000 miles within this GRC cycle based on estimates and these are approved for replacement but with an adjusted replacement year.

Executive Director of the State Water Resources Control Board dated August 20, 2015. The letter states that Golden State does not meet the definition of an urban water supplier for the Ojai CSA. Therefore, we find that a UWMP is not needed for the Ojai CSA, and deny this request for the Ojai CSA. There were no objections regarding the UWMPs for Golden State's other service areas and we find it reasonable to approve these projects.

6.1.1.5. Chemical Disinfection Building Replacements

Issues regarding requests to construct chemical disinfection buildings are discussed in the respective capital projects wherein such were requested. In general, we approve Golden State's request to base costs on the construction of permanent facilities.

6.1.1.6. General Order 103-A Minimum Pressure Requirements

Likewise, capital projects involving compliance with minimum pressure requirements provided in General Order (GO) 103-A⁷³ are discussed in each respective capital project where this issue was raised. We would like to note however, that this proceeding is not the proper proceeding to consider revisions to GO 103-A. We also note that section I.1.C of GO 103-A provides that the rules in said order shall not be construed to require the replacement or abandonment of facilities, in use at the time of adoption of the rules contained in the order, prior to the expiration of such facilities' economic life. Additionally, section I.1.E of the order provides that the rules contained in GO 103-A shall be observed by utilities unless otherwise directed by the Commission. Thus, in considering the

⁷³ 40 psi.

reasonableness of each proposed capital project, while the Commission shall consider the requirements provided under GO 103-A, we also note instances of when the rules are not mandatory and consider also other applicable facts, circumstances, issues, and concerns surrounding each project.

6.1.1.7. Maximum Day Demand and Firm Capacity

We make no general findings or conclusions with respect to maximum day demand and firm capacity and specifically address these issues in specific capital projects as applicable.

6.1.2. Pipeline Projects

Golden State's requested capital budget for pipeline replacement projects is \$119.192 million which is approximately 48 percent more than its approved budget of \$80.363 million in its prior GRC. The requested budget and proposed projects are pursuant to Golden State's Pipeline Management Program (PMP), which was first implemented in Golden State's 2008 GRC. The PMP provides specific pipeline projects that will be pursued and pipelines subject for replacement. According to Golden State, the PMP is comprised of three separate analyses: (a) a risk assessment analysis which analyses the likelihood of a pipeline failing; (b) a modeling analysis called the KANEW Model⁷⁴ which is an asset management software program used to estimate the amount of pipeline that should be replaced each year; and (c) a pipeline replacement prioritization analysis.

⁷⁴ The KANEW Model is based upon a predictive model developed in Germany. The KANEW software program forecasts long-range water pipeline replacement needs and estimates a broad range of lengths of water pipelines to be replaced. The Model does not predict which specific pipelines to replace, merely the amount of replacement or installation that is needed each year.

Golden State's pipeline budget assumes a contingency factor of 10 percent and as stated in section 6.1 of this decision, the amounts approved are subject to adjustment depending on our findings regarding additional costs. In the case of contingency costs, the approved level is five percent as discussed in section 6.1.1.1, and so the approved amounts must be adjusted accordingly.

6.1.2.1. Positions of the Parties

6.1.2.1.1. ORA

ORA argues against Golden State's PMP and states that the proposed pipeline budget is too high. ORA objects to unit costs of certain pipes and the addition of small project costs. ORA adds that even if the KANEW modeling were to be followed, Golden State proposes to replace 31 percent more pipeline in Region 2 than what is recommended by the KANEW modeling. ORA also notes that many of the proposed pipeline replacement projects involve pipelines that have had zero or only a few incidents of leaks, and are far removed from their life expectancies. As a result, ORA examined Golden State's proposed pipeline replacement projects on a case-by-case basis and objected to 34 pipeline projects.

6.1.2.1.2. Golden State

Golden State presented arguments that support its PMP, which has been in place since 2008. Golden State explains that its pipelines are aging and that a sound replacement program is necessary to prevent pipelines from failing at the same time, and to avoid failure of the system, or a sudden rate shock if multiple pipelines have to be replaced within a short period of time. Golden State also objects to relying solely on leak information and waiting until pipelines are near the end of their life expectancy before they are replaced. Golden State also provided arguments in support of the well-established and widely used KANEW

Model. Finally, Golden State explains that it also considers other factors when proposing pipeline replacements.

6.1.2.2. Discussion

Golden State's requested pipeline budget of \$119.192 million represents a large portion of its requested capital budget for this GRC and we have carefully analyzed the evidence presented as well as the arguments raised by the parties.

Based on our review and analysis, we find that for this GRC period, a systematic approach towards pipeline replacements such as the PMP is more appropriate rather than a case-by-case analysis of proposed pipeline projects. Additionally, in this proceeding, the specific pipeline projects were, in the first place, determined based on a systematic approach such as the PMP.

Examining Golden State's PMP, we find that the three separate analyses incorporated in the PMP comprised of a risk based assessment, a rate of replacement analysis, and pipeline replacement analysis, presents a reasonable methodology of analyzing and determining pipeline replacement projects. The underlying principle of the PMP is that aging pipelines must be replaced systematically in order to ensure that replacement and costs associated with such, does not occur at once or within a short period. Because a majority of pipelines are expected to reach the end of their useful lives at around the same time, it would be imprudent to wait until this occurs without causing rate shock, severe service disruption, or even system failure. The PMP employs analysis and other data on individual pipelines in Golden State's water systems in order to select pipelines that have a high priority of replacement and the process considers many factors such as risk of reduction, pipeline material, pipeline age, fire flow deficiencies, and leak frequency.

We also find that the 10 percent design budget proposed by Golden State is reasonable and that a comparison with Park Water's design budget is not appropriate. We also find that the three-year average methodology Golden State adopted in determining unit costs for 8-inch ductile iron pipeline is reasonable.

With respect to the proposed amount of pipeline replacement for Region 2 however, we note that the KANEW Model, which Golden State uses as a basis for setting the rate of pipeline replacement, recommended that 27.77 miles of pipeline be replaced in Region 2. Golden State's proposal to replace 36 miles of pipeline in Region 2 is approximately 30 percent above what the KANEW Model recommended. The proposed amount also results in a three-year budget for Region 2 pipeline replacement that is almost double than the amount authorized in Golden State's prior GRC. Although it is expected that the proposed rate of replacement proposed will vary somewhat from what the KANEW Model recommends based on adjustments that Golden State will employ, the record does not sufficiently explain why the variance from the KANEW Model is at the level requested. Golden State cited the low rate in which it has replaced pipelines in Region 2 for the last three years⁷⁵ but we find that this does not provide sufficient explanation for the replacement rate being proposed.

We took note of Golden State's explanation that it also considers many other factors when proposing pipeline replacements other than what the KANEW Model recommends. However, the record does not sufficiently establish why Golden State's proposal, which uses the KANEW Model as its basis for rate of replacement, would result in a replacement rate which is

⁷⁵ In Region 2, Golden State has replaced an average of 9.6 miles of pipeline each year for the past three years.

significantly different from what was recommended by the KANEW Model. In fact, according to Golden State, it only applied an “optimistic” pipeline expectancy for Region 2 in consideration of the overall Region 2 budget in order to reduce the proposed rate of replacement. According to Golden State, applying an “optimistic” pipeline expectancy as opposed to a more preferred “medium” level of pipeline expectancy, resulted in a proposal that is three miles less. If the budget for Region 2 is already high, it follows that the level of replacement proposed should not be too high as well and should not be far above from what the KANEW Model recommends.

As the applicant, Golden State bears the burden of clearly showing why its capital requests should be granted by the Commission.

Based on our review and analysis of the evidence, positions and arguments raised by the parties, as well as the considerations discussed above, we find that it is reasonable to approve 32 miles of pipeline replacement for Region 2. We took into consideration Golden State’s explanations regarding its proposed amount of pipeline replacement for Region 2 but find that it does not justify or properly support the proposed level that it is requesting. Thirty two miles represents a replacement rate that takes into account Golden State’s request, ORA’s recommendations, and what the KANEW Model recommended for Region 2. Therefore, the approved budget for Region 2 pipeline replacement projects should be reduced accordingly to reflect 32 miles of pipeline replacement projects being authorized instead of 36 miles of pipeline.

Golden State may select which specific pipeline projects for which it intends to continue or discontinue using its pipeline prioritization analysis methodology. Golden State shall include information regarding the Region 2

pipeline projects that were undertaken and those that were discontinued in its next GRC application.

6.1.3. Region 1 Projects

6.1.3.1. Arden Cordova CSA

Disputed Capital Projects for Arden Cordova CSA are the following:

(a) \$273,500 in 2015 to acquire land and \$308,900 in 2017 to design and permit a new well in the Arden System; (b) \$1,657,300 in 2015 and \$3,070,200 to construct a new well, reservoir and boosters at the Trussel Plant; (c) \$140,000 in 2015 to perform a grounding survey at the Coloma Water Treatment Plant (WTP); and (d) \$397,900 in 2015 to recoat the interior of a Coloma Reservoir.

6.1.3.1.1. Positions of the Parties

6.1.3.1.1.1. ORA

ORA states that Watt Well #2 in the Arden Cordova system is in good working condition and that Golden State is not required to replace this well. ORA also argues that Golden State has enough capacity and does not need production from the proposed new well at the Trussel Plant. ORA thus recommends that the project be disapproved. Because Golden State did not complete this previously authorized project, ORA suggests that this is an indication that the project is not really necessary. Finally, ORA agrees with the need for the Coloma WTP recoat project but recommends \$282,000 based on costs from the Evora Reservoir recoating project.

6.1.3.1.1.2. Golden State

Golden State explains that Watt Well #2 is not in compliance with GO 103-A and that it is prudent to replace aging infrastructure such as this well which is more than 65 years old. Regarding the proposal for a new well at the Trussel Plant, Golden State claims that ORA relied on information from a 2013

Arden Report which contains a mathematical error. Golden State explains the need for the grounding survey and explained that the project was not completed prior to this time because the bid it received plus overhead costs were more than what was authorized for the project which had a spending cap. Regarding the recoat project for the Coloma WTP, Golden State argues that the Evora Project is not a correct basis for comparing projected costs of this project because the two projects are dissimilar from one another.

6.1.3.1.2. Discussion

GO 103-A does not require replacement of existing wells that are in working order but do not meet the minimum requirements set forth in the order. Thus, in evaluating the reasonableness and necessity of the proposed project to replace Watt Well #2 in the Arden Cordova System, we look at the well's specific condition and surrounding circumstances. The evidence shows that Watt Well #2 was one of the top producing wells in the Arden system from 2012 to 2014. While we acknowledge the potential hazards Golden State stated because of the well's "deficiencies" with respect to the minimum requirements for new wells, no evidence was presented about water quality issues surrounding the well. Thus, we find that replacing Watt Well #2 and the accompanying request to acquire land for the proposed new well, is not necessary at this time and that it is reasonable to deny the request for this project.

Concerning the request to construct a new well, reservoir and boosters at the Trussel Plant, we find that there is conflicting information regarding well capacity in the area. Golden State claims that ORA relied on a 2013 report that contains a mathematical error while ORA references a 2014 California Department of Public Health/Division of Drinking water report. Based on our review, we find that it was not clearly established what the correct capacity

computation is, and whether it includes or does not include certain systems that can or may be relied upon. Thus we find that it is reasonable for approval of this project to be withheld until the correct capacity computation is firmly and sufficiently established. Golden State should request approval of this project in a subsequent GRC. In the meantime, we find that the current system will be able to meet projected demand and any fire protection needs within this GRC cycle, given the recent reduction of demand, the Governor's water reduction mandate, and interconnection with other systems that may be relied upon in emergency cases. Based on the above, the requested amounts to construct a new well, reservoir, and boosters at the Trussel Plant are denied at this time.

Regarding the grounding survey at the Coloma WTP, we find that the need for this project has already been established in the prior GRC and that there is no need to re-examine this need as conditions have not changed. We also find the requested amount to be reasonable and ensures that enough funds are allotted for the project to ensure its completion.

Regarding the Coloma WTP recoat project, we find that basing costs from the Coloma Reservoir #1 recoating project is more appropriate considering the similarities with the proposed recoating project for Coloma Reservoir #2. We also find that ORA's witness did not have sufficient knowledge regarding the more specific details concerning the Evora Recoat Project from which it is basing its cost recommendations. Based on the above, we find that the requested amount to recoat Reservoir #2 at the Coloma WTP is reasonable and should be approved.

6.1.3.2. Bay Point CSA

Disputed Capital Projects requested for Bay Point CSA are as follows:

(a) \$20,700 to capitalize costs for share in the Randall-Bold WTP;⁷⁶ (b) \$515,800 in 2015 for Madison Reservoir improvements; and (c) \$70,700 in 2017 for design and permit costs of Hill Street Plant improvements and \$50,000 in 2017 for design and permit portion of Skyline Reservoir improvements.

6.1.3.2.1. Positions of the Parties

ORA objects to Golden State's computation regarding its share of costs in the Randall-Bold WTP and recommends that costs be expensed instead. ORA also objects to the Madison Reservoir improvements stating that it is not needed to meet operational and storage requirements in the region. Lastly, ORA recommends a reduction of costs for the Hill Street Plant and Skyline Reservoir improvements, using the same estimates used in the Evora Reservoir project, and imposing certain conditions with respect to completion of the two projects.

Golden State removed \$3,600 in overhead costs for the Randall-Bold WTP and explains that it is not authorized to treat 2015 costs as an expense because its purchased water costs are not being reviewed in this proceeding. Regarding the improvements for the Madison Reservoir in order to bring it back into service, Golden State argues that the Madison Reservoir is needed to provide sufficient fire flow for the southern portion of Highway 4. Lastly, Golden State provides that the Evora Reservoir project is dissimilar to the Hill Street Plant and Skyline Reservoir projects.

⁷⁶ Golden State originally requested \$24,300 but agreed to forego \$3,600 in overhead costs.

6.1.3.2.2. Discussion

After consideration of the arguments raised by the parties, we find that Golden State should be authorized to recover its share of 2015 costs for Contra Costa County District's Randall-Bold WTP. Golden State explained that it is not able to include costs in its existing MCBA account for 2015, because its purchased water costs for 2015 were adopted by the Commission in D.13-05-011 and we agree. Additionally, Golden State reduced the amount requested by removing \$3,600 of overhead costs.

Regarding the restoration of the Madison Reservoir, Golden State explained that it has compensated for the loss by operating the Chadwick Booster 24 hours a day and 7 days a week plus reconfiguring valves between the Madison Reservoir and Hill Street Reservoir Zones. In addition, the Madison Reservoir is needed to provide sufficient fire flow in the area to ensure safety in case of a fire. We agree with Golden State regarding the need to restore operation of the Madison Reservoir and find the request for improvements to be reasonable and should be approved.

After review of the evidence and arguments raised by the parties, we find the costs and request for improvements for the Hill Street Plant and Skyline Reservoir to be reasonable and should be approved. Golden State provided testimony that the two projects are dissimilar to the Evora Reservoir project⁷⁷ and we agree. We also find that the requested conditions recommended by ORA are not necessary and we will not micromanage Golden State's construction and completion of these two projects.

⁷⁷ See Exhibit GS-29.

6.1.3.3. Clearlake CSA

For Clearlake CSA, disputed capital projects are the following: (a) \$4,400 and \$6,500 in 2017 for design costs to install a generator connection panel at the Lakeshore Plant and the Sonoma WTP; and (b) \$179,100 in 2015 to repair the roof and install a cathodic protection system to enhance and prolong the life of the Sonoma WTP.

6.1.3.3.1. Positions of the Parties

ORA claims that generators for the Lakeshore Plant and Sonoma WTP are not necessary because Golden State has sufficient capacity in Clearlake and because Clearlake has an interconnection with the Highland Water Company. ORA supports the enhancement project to prolong the life of the Sonoma WTP but recommends a cost of \$131,200.

Golden State claims that any extended power outage in the Clearlake area is also likely to affect the Highland Water Company. Regarding the Sonoma WTP repair and enhancements, Golden State argues that its forecast is based on costs of a similar project.

6.1.3.3.2. Discussion

After review of the evidence presented, we find that Golden State was not able to fully justify the need for backup generators at the Lakeshore Plant and Sonoma WTP. Therefore, the requested amounts for these projects are denied in this GRC. Golden State envisions an emergency scenario where both its own systems in Clearlake, and that of Highland Water Company, be rendered inoperative by an extended power outage. However, there is incomplete information regarding such an occurrence where both systems were inoperable. Golden State can request these projects in a future GRC but must provide along

with more information why the interconnection with Highland Water Company is not sufficient to serve as a backup source.

Regarding the project to repair the roof and install a cathodic protection system for Sonoma WTP, we find that Golden State used a similar project for its forecast. In contrast, ORA based its recommended costs on another project but its witness admitted that he was not familiar with the specific circumstances surrounding both the project ORA referred to, and the project referenced by Golden State as a basis of comparison for this proposed project. Thus, we find that Golden State's requested amount of \$179,100 is reasonable and should be approved.

6.1.3.4. Los Osos, CSA

Disputed capital projects in Los Osos CSA are the following: (a) \$48,700 in 2016 and \$337,700 in 2017 to replace the Country Club East Reservoir; (b) \$237,500 in 2015 and \$1,385,100 in 2016 to install a new well at the Los Olivos Plant; (c) \$46,000 in 2016 and \$318,600 in 2017 to realign the pressure zone at the Bayview Zone; (d) \$147,200 in 2017 for the design to replace a tank, recoat a separate tank, and to install a cathodic protection system for each of the two tanks;⁷⁸ and (e) to continue work on the Edna Road Well project.

6.1.3.4.1. Positions of the Parties

6.1.3.4.1.1. ORA

ORA recommends approval of the design portion of the Country Club East Reservoir replacement project but recommends that actual construction be deferred to a later time. ORA recommends denial of the request to construct a

⁷⁸ The requested amount is only for the design portion of the project. Construction costs must be requested in a future GRC.

new well at the Los Olivos Plant stating that there is no supply deficiency and that demand has decreased in recent years. ORA notes that there are no complaints regarding pressure to justify realignment of the pressure zone for the Bayview Heights area. ORA also objects to the “bundling” of three tank-related projects because it increases design costs as the combined costs exceed \$500,000. For the Edna Road Well project, ORA recommends removal of certain costs.

6.1.3.4.1.2. Golden State

Golden State argues that replacement of the Country Club East Reservoir is critical in reducing risk of reservoir failure. In support of its request to construct a new well at the Los Olivos Plant, Golden State provides that two other wells in the Los Osos system are in danger of being taken offline. Golden State also argues against ORA’s recommendation regarding the realignment of the pressure zone at the Bayview Heights area and adds that ORA does not dispute that low pressure exists despite the fact that no data regarding complaints regarding pressure was presented. Regarding the three tank-related projects, Golden State argues that the projects are related and were not purposely “bundled” in order to increase costs. Concerning the recommended reductions by ORA on the Edna Road project, Golden State provides that the costs ORA cited for removal relate to other projects and not the new well project.

6.1.3.4.2. Discussion

After review of the evidence presented and arguments raised by the parties, we find that all the disputed projects for Los Osos CSA described above are reasonable and should be approved except that the requested amount of \$147,200 in 2017, for the design costs to replace a tank, recoat a separate tank, and

to install a cathodic protection system for each tank should be reduced by three percent which results in an amount of \$142,784 that should be approved.

We find no reason to delay actual construction of the Country Club East Reservoir replacement to a future GRC and note that the existing reservoir is in poor condition.

We also find that construction of a new well at the Los Olivos Plant is necessary because of issues regarding two other wells at the Los Ojos system which could result in reduced capacity. In addition, we disagree with ORA's methodology of calculating supply needs using the lowest recorded level in the last five years.

Regarding the project to resolve pressure issues in the Bayview Heights Zone, parties were in agreement that low pressure exists in the area which prevents Golden State from being compliance with pressure requirements under GO 103-A. In addition, we note that this GRC is not the proper proceeding to amend requirements provided under GO 103-A although the Commission considers circumstances that would necessitate deviation such as the Governor's water reduction mandate for instance.

For the three tank projects, we agree that combining the three projects results in an increase of design costs by three percent and find that the requested amount should be reduced by three percent.

Lastly, the Edna Road project was already found to be necessary and we find that it is reasonable to allow Golden State to continue work on this project. In addition, we find that the projects ORA cited relating to the Edna Well relate to other projects and not the new well project.

6.1.3.5. Ojai CSA

For Ojai CSA, the following capital projects are being disputed:

- (a) \$255,200 in 2016 and \$737,800 to realign the pressure zone in the Main Zone;
- (b) \$90,700 in 2016 to install fencing around the Mutual Plant; and (c) not to remove \$533,153 from the Valley View/Fairview Plant project.

6.1.3.5.1. Positions of the Parties**6.1.3.5.1.1. ORA**

ORA recommends denial of the Main Zone pressure realignment project because of additional costs for a second phase of the project and because only 17 customers will benefit from this project. ORA also does not support the pressure requirements in GO 103-A. Regarding the project to install a fence at the Mutual Plant, ORA argues that the unit cost should be \$23 per foot instead of \$90 per foot as requested by Golden State, and cites the San Antonio Plant fencing project which had a unit cost of \$23 per foot. ORA also recommends removal of \$533,153 from the Valley View/Fairview Plant CWIP because the project has already been replaced by another project.

6.1.3.5.1.2. Golden State

Golden State explains that it divided the cost of the realignment project into two parts to minimize the impact on ratepayers. Regarding the fencing project, Golden State argues that smaller fencing projects cost more per unit and points out that the San Antonio Plant fencing project was for 1,600 feet of fencing while the current project is for 600 feet of fencing. Regarding the recommended removal of \$533,153 from CWIP, Golden State explains that these were legitimate costs spent on the project until it found an alternative solution to mitigate what the past projects were supposed to address.

6.1.3.5.2. Discussion

Based on our review of the record and consideration of the parties' arguments, we find that the realignment project has an additional phase which Golden State explained was to reduce the impact on ratepayers by adding the costs of the second phase in a separate GRC period. We find this approach to be reasonable. With respect to the requirements provided in GO 103-A, we note that this is not the proper proceeding to propose changes to the provisions contained therein. We also find that there is no de minimis exemption from compliance with its provisions although we do note that there are instances when deviation is proper and that the order should not be construed to require replacement of facilities in use prior to the promulgation of the order, if the facilities are still within their economic life. In this case however, we find that compliance with the requirements of the order is appropriate considering the circumstances surrounding the project. Therefore, we find that the requested amounts for the Main Zone pressure realignment project are reasonable and should be approved.

Regarding the installation of chain link fencing around the Mutual Plant site, we find that the project is necessary. However, in reviewing the proposed costs, we note that a similar project consisting of 400 feet of fencing for the Oakcrest Plant in Clearlake had a unit cost of \$50 per foot.⁷⁹ Golden State argues that smaller fencing projects cost more per unit because of economies of scale. However, the current project is for 600 feet of fencing and we find that the unit cost should be comparable and perhaps no more than the unit cost of a 400 feet project where the unit cost is \$50 per foot. Based on the above, we

⁷⁹ See Exhibit GS-129 at 162.

approve the installation of a chain link fence system at the Mutual Plant but reduce the approved costs to \$50 per unit instead of the requested \$90 per unit. The approved cost for the project should be \$50,700, instead of \$90,700.

Regarding the removal of \$533,153 from CWIP of the Valley View/Fairview project recommended by ORA, we find that the amounts were spent for preparatory and due diligence activities in connection with site improvements, relocating a booster station, and land acquisition activities authorized in D.13-05-011.⁸⁰ We agree with Golden State that these amounts were spent pursuant to approved projects, were useful and necessary, and should not be removed even though those projects were ultimately modified as Golden State found a better alternative to address issues that the original projects were attempting to address.

6.1.3.6. Santa Maria CSA

For the Santa Maria CSA, the following capital project requests are disputed: (a) \$402,900 in 2016 to install chlorine residual analyzers tied into the Supervisory Control and Data Acquisition System (SCADA) at 18 sites in Santa Maria; (b) disinfection facilities at the Eucalyptus Plant, La Serena Plant, and Osage Plant with costs of \$9,400, \$27,300 and \$9,900 in 2016 for design and permit, and \$65,400, \$189,700 and \$69,000 in 2017 for construction; (c) \$57,400 in 2016 and \$398,000 in 2017 for design, permit and construction to upgrade facilities at the Alta Mesa Plant; (d) \$80,400 in 2016 to perform a pressure study and hydraulic modeling analysis in the Orcutt System; (e) \$53,100 in 2016 to install a pressure regulating valve (PRV) at the Rice Ranch Subzone; (f) \$132,500

⁸⁰ See D.13-05-011 Attachment 3.

in 2016 to replace a motor control center (MCC) and install a variable frequency drive (VFD) at the Oak Plant; (g) \$147,800 in 2016 to replace and MCC and install a VFD at the Orcutt Plant; (h) \$149,400 in 2016 to replace an MCC and add SCADA at Mira Flores; (i) \$77,700 in 2016 and \$538,800 in 2017 to recoat a reservoir at the Orcutt Hill Plant; (j) \$300,700 in 2017 for design and permit costs to replace the roof at the Mira Flores #1 Reservoir and to elevate the walls; (k) \$1,171,200 to construct a tank and booster station at the Pinewood Plant; (l) to continue design work for the Tanglewood Reservoir and boosters; and (m) \$80,000 to include in CWIP the purchase of spare pumps/motors for two wells, Tanglewood #3 and Foxcanyon #5.

6.1.3.6.1. Positions of the Parties

6.1.3.6.1.1. ORA

There are 13 disputed capital projects proposed in the Santa Maria CSA and ORA's positions and arguments are as follows:

ORA agrees with the necessity of installing chlorine residual analyzers at eighteen sites in the Santa Maria district but recommends a \$3,000 per unit cost for each analyzer instead of the \$5,000 being requested by Golden State. ORA also recommends that actual construction be moved to 2017;

ORA agrees with the need for disinfection facilities at the Eucalyptus, La Serena, and Osage Plants but recommends a lower cost;

ORA agrees with the proposed upgrades for the Alta Mesa Plant except for a recommended reduction in costs of the disinfection building and a VFD installation instead of the hydropneumatic tank being proposed. ORA states that during a site visit, a Golden State employee opined that a VFD is actually preferred;

ORA recommends that the Orcutt System Realignment Study being proposed be postponed until the Commission has a chance to reconsider the pressure requirements in GO 103-A;

ORA objects to the PRV installation at the Rice Ranch Subzone arguing against the pressure minimum requirements set forth in GO 103-A. ORA adds that there was only one complaint relating to water pressure;

ORA objects to the PRV installation at both Oak Plant and Orcutt Plant, stating that the PRVs are not needed;

ORA recommends that the MCC replacement and SCADA installation for the Mira Flores Plant be delayed to 2017, instead of 2016;

ORA agrees with the need to recoat the Orcutt Hill Plant Reservoir but recommends a reduced amount of \$253,000;

ORA states that Golden State should re-inspect the tank at the Mira Flores Reservoir and that increased storage is not necessary;

ORA objects to the construction of a storage tank and booster station at the Pinewood Plant stating that this is not necessary because the number of customers in the area has decreasing;

ORA recommends that the proposed reservoir and boosters at the Tanglewood Reservoir are not necessary and thus objects to the continuance of the design phase of the Tanglewood reservoir and boosters; and

ORA states that spare pumps/motors are not necessary and that Tanglewood #3 is a brand new well.

6.1.3.6.1.2. Golden State

Regarding the unit cost of residual analyzers, Golden State argues that ORA merely performed a generic online search⁸¹ while the model proposed by Golden State was recommended by an expert.

⁸¹ See ORA-7 at 61.

Regarding the request for disinfection facilities at three plants, Golden State claims that ORA's recommended costs are based on temporary facilities.

With respect to the Alta Mesa Plant upgrades, Golden State denies the preference for a VFD and provides that the lesser cost recommended by ORA for the disinfection building is based on temporary facilities.

Regarding the system-wide realignment study being proposed, Golden State argues that the Commission should not ignore the minimum pressure requirements provided in GO 103-A.

Regarding the PRV for the Rice Ranch Subzone, Golden State reiterates its commitment in having its systems comply with the minimum pressure requirements set forth in GO 103-A.

Regarding the PRV installation at the Oak and Orcutt Plants, Golden State provides that the PRV installation will improve efficiency of systems in the area and cites other benefits from the proposed projects.

Regarding the MCC and SCADA installation, Golden State argues that the project should be started as soon as possible.

Golden State disagrees with ORA's recommended amount to recoat a reservoir at the Orcutt Hill Plant and says that the project ORA used as a basis is a dissimilar project.

Regarding the roof replacement project for the Mira Flores #1 Reservoir, Golden provides that the roof needs to be replaced and that it is taking advantage of the proposed construction to address other needs such as increasing the height of the walls during the roof replacement process.

Regarding the storage tank for the Pinewood Plant, Golden State explains that the project will improve efficiency of wells and address storage, reliability and fire flow issues.

Regarding the spare pumps/motors for two wells, Golden State argues that it is common practice to invest in spare pumps for wells that service small systems with limited sources of water supply.

6.1.3.6.2. Discussion

Regarding the request to install residual analyzers at 18 different sites within the Santa Maria CSA, we note that there was no opposition to the proposed project except with regards to unit cost and timing. Concerning the unit cost, the record shows that the model selected by Golden State was proposed by its Coastal District Water Quality Engineer, while ORA only performed a generic online search of the product. Based on the above, we find that the model selected by Golden State would be more appropriate for its project. The record shows however, that the unit cost of the model selected by Golden State is actually \$4,694. With respect to timing, we agree with ORA that it is more appropriate to spread installation over two years and in view of the fact that we are already in the 4th quarter of 2016. Based on the above, we find that it is reasonable to reduce the unit cost of each residual analyzer to \$4,700 from \$5,000, and to approve the design portion of the project in 2016, and actual installation in 2017.

Concerning the disinfection facilities proposed at three plants, we note that ORA agrees with the necessity of the project but objects to the cost. After review of the record, we agree with Golden State that ORA's costs are based on temporary disinfection facilities which were installed while permanent ones

were being constructed.⁸² Based on the above, we find Golden State's forecast to be reasonable and should be approved.

Golden State's proposed upgrades at the Alta Mesa Plant include destroying an existing well, replacing an MCC, installing a hydropneumatic tank, replacing pump base and constructing a disinfection building and adding a VFD at a well. Regarding ORA's objection to the cost of the disinfection building, Golden State explained that the cost comparison ORA made was with temporary facilities while Golden State is proposing permanent facilities. Thus, we agree with Golden State's forecast cost of \$60,000 for the disinfection building instead of the \$40,000 recommended by ORA. Regarding ORA's objection to the hydropneumonic tank, the record is not clear and ORA was not able to identify the Golden State employee that recommended a VFD during ORA's site visit. It is unknown what his job description is and what his qualifications are. We also note that a VFD installation is among the upgrades requested in this project so it appears that Golden State did consider this alternative. Based on the above, we find that the requested upgrade projects for the Alta Mesa Plant are reasonable and should be approved.

With respect to the proposed zone realignment study, the record shows that the only purpose of the project is to ensure compliance with the minimum pressure requirements provided in GO 103-A. Golden State added that it is also to address pressure complaints in the area but the complaints were not substantiated. We have previously provided that GO 103-A need not apply to existing facilities and utilities cannot be expected to simply replace every single

⁸² Exhibit GS-129.

facility that does not meet the requirements provided in the order at the time it was promulgated. Instead, utilities are expected to fully adhere to these requirements prospectively when new facilities are constructed or installed. Thus, in evaluating whether a facility needs to be replaced, we look at all surrounding factors affecting such replacement. In this instance, because the sole purpose of the project is to conduct a study whether facilities meet minimum pressure requirements when such facilities might not be subject to such standards, we find it reasonable to deny approval of the project at this time.

Regarding the request to install a PRV at the Rice Ranch Subzone, we find that it is reasonable not to approve the proposed project based on the evidence presented in support of the project. As we have previously discussed, GO 103-A need not be applied to existing systems that are still being used. We also explained that we will evaluate each project based on the merits of each case. With respect to this project, the main reason given was compliance with GO 103-A and absent other substantial reasons to justify this project, we hereby withhold our approval for this project.

Regarding the MCC and VFD installations at Oak Plan and Orcutt Plant, we find that Golden State presented adequate evidence to show that the MCCs at the two plants are near the end of their useful lives and so replacement is proper. With respect to the proposed PRV installation at both plants, ORA was not able to fully substantiate its claim that a PRV would not be cost effective. On the other hand, Golden State provided sufficient evidence of projected benefits including being able to operate its systems more efficiently if it is able to regulate pressure more efficiently. Therefore, we find that the requested MCC and PRV installations at the Oak and Orcutt Plants are reasonable and should be approved.

Regarding the MCC replacement and SCADA installation at the Mira Flores Plant, both parties agree that the project is necessary. After considering the arguments raised by the parties, we find that there is no significant reason why the project should be delayed. As for the MCC, the record shows that it is near the end of its useful life and should be replaced. Based on the above, we find that the MCC replacement and SCADA installation project at the Mira Flores Plant is reasonable and should be approved.

Regarding the request to recoat a reservoir at the Orcutt Hill Plant, both ORA and Golden State agree on the necessity of the project but disagree as to the correct forecast of costs. After review and analysis of the evidence presented and arguments raised by the parties, we agree with Golden State that the scope of the project ORA used as a comparison is dissimilar and did not include additional improvements such as safety appurtenances and seismic improvements that were performed later on at an additional cost of \$97,000.⁸³ We also find that ORA did not provide sufficient justification for its objection to a related construction of a second manhole. Thus, we find that Golden State's forecast more accurately reflects the costs involved taking into account specific details regarding the proposed project. We therefore find the forecast amount of \$616,500 for the Orcutt Hill Plant Recoat Reservoir and associated projects to be reasonable and should be approved.

Regarding the proposed roof replacement and other construction for the Mira Flores #1 Reservoir, we find that based on the evidence and arguments presented, the proposed project and forecast costs are reasonable and should be

⁸³ See Exhibit GS-29 at 177.

approved. Golden State submitted a tank inspection report⁸⁴ that provides that the roof at the reservoir is failing and in need of immediate replacement or repair. We agree with Golden State's reasoning that this is a good opportunity to address the height of the walls and other issues concerning the reservoir while the roof replacement process is ongoing and that this will provide savings.

Regarding the construction of a storage tank and boosters at the Pinewood Plant, we find that the project and forecast costs are reasonable and should be approved. We find that Golden State provided sufficient justification for the project and provided that the project will improve efficiency of wells in the area because it will allow them to operate close to their design point, improve reliability, and address fire flow demand issues.

Regarding the continuation of design work and construction of the Tanglewood Reservoir and boosters, the Commission already authorized the design portion of this project in D.13-05-011⁸⁵ and so we find that it is reasonable to allow Golden State to perform the design work for this project.

Regarding the purchase of spare pumps/motors for two wells, we find that the request is reasonable and should be approved. Golden State provided credible testimony explaining that the two wells service small water systems and are solely reliant on groundwater produced by said wells. Golden State added that it may take weeks to replace a pump or motor that breaks down leaving customers in those areas without any other water source. The length of time to provide a replacement was not contested. Based on the above, we find that it is

⁸⁴ Exhibit GS-73 Attachment SM02.

⁸⁵ See D.13-05-011, Attachment 3.

reasonable to include in CWIP \$80,000 to purchase spare pumps/motors for Tanglewood #3 and Foxcanyon #5 and that this request should be approved.

6.1.4. Region 2 Projects

6.1.4.1. Central Basin East CSA

There is only one disputed capital project for Central Basin East CSA which is the request of \$538,900 in 2015 and \$3,142,400 in 2016 to construct a new well at the Studebaker Plant to replace an existing well that is more than 85 years old.

6.1.4.1.1. Positions of the Parties

ORA argues that Golden State has enough water in the areas served by the Norwalk System and that any deficiency can be addressed by purchased water.

On the other hand, Golden State contends that production from the new well is necessary to replace Imperial Well #1. Golden State also argues that purchased water is more expensive than groundwater.

6.1.4.1.2. Discussion

After reviewing the points and arguments raised by the parties, we find that construction of a new well at the Studebaker Plant as well as the requested construction costs are reasonable and should be approved. The new well will replace an existing well and we agree with Golden State that purchased water is more expensive than producing groundwater and that the well will provide benefits and possible savings to ratepayers.

6.1.4.2. Central Basin West CSA

Disputed capital projects in Central Basin West CSA are Golden State's request to: (a) replace the pump and motors of two boosters at the Bissell Plant for which Golden State is requesting \$494,400 in 2015; and (b) install a chemical

building with sump at the McKinley Plant for which Golden State is requesting \$30,000 in 2016 and \$210,000 in 2017.

6.1.4.2.1. Positions of the Parties

ORA states that the boosters at the Bissell Plant do not need to be upgraded as its production is near or equal to well capacity at the Bissell Plant. With respect to the request to install a chemical building with sump, ORA contends that this is not necessary and that the current set-up meets California regulations.

Golden State contends that the current booster capacity of the pumps is much less than what ORA claims and that ORA relied on 2010 data. Regarding the chemical building, Golden State argues that the project is necessary to contain chemicals in case of a spill.

6.1.4.2.2. Discussion

ORA argues that the booster pumps, which had a good and excellent rating as recently as 2013, would experience a sudden decline. Golden State however, presented evidence that current capacity of the booster pumps is much less than what ORA suggests, and that ORA relied on 2010 data that is more than five years old.⁸⁶ We agree with Golden State that it should maximize capacity of the booster pumps and find that it relied on more recent data to determine current capacity of the booster pumps. Thus, we find that the request to upgrade the two boosters at the Bissell Plant is reasonable and should be approved.

Regarding the request to install a chemical building with sump at the McKinley Plant, we find that the project is reasonable and should be granted.

⁸⁶ See Exhibit G-129.

Evidence was presented what may occur in case of a spill and that the current set-up does not provide for containment in the event of a spill. It is therefore prudent to ensure that the risk of a spill will be contained and because the project promotes safety and the protection of the surrounding environment.

6.1.4.3. Culver City

The disputed capital projects in Culver City CSA are: (a) \$386,300 in 2016 and \$2,232,500 in 2017 to install a new booster station at the Baldwin Hills Plant; and (b) \$383,900 in 2015 and \$2,238,300 in 2016 for Perham Plant Upgrades.

6.1.4.3.1. Positions of the Parties

6.1.4.3.1.1. ORA

ORA argues that booster pumps at the Lenawee Plant can provide water to the Pernham/Lenawee zones and serve as a secondary source of water. With respect to the Pernham Plant upgrades, ORA states that this is the third GRC that Golden State has requested upgrades for the Pernham Plant and that it never undertook the prior projects that were approved.

6.1.4.3.1.2. Golden State

Golden State provides that the booster station will serve as a secondary source of water to the area which has only one source and that the booster station at the Lenawee Plant can only provide 100 gallons per minute (gpm) while the required amount is 133 gpm. Regarding the Pernham Plant upgrades, Golden State provided reasons why prior projects were not undertaken and that it is fully committed to pursue this project.

6.1.4.3.2. Discussion

After review of the evidence and arguments raised, we find that the request to install a new booster station for the Baldwin Plant should not be

granted at this time. Golden State should first explore options to upgrade the Lenawee Plant booster pumps to be able to provide 133 gpm instead of 100 gpm. Golden State should also substantiate that 133 gpm is the required amount that is needed. If these booster pumps are able to be upgraded, then this can serve as the secondary source of water as opposed to constructing a new booster station. In addition, the extent and prevalence of the water quality concerns were not fully substantiated.

With respect to the Pernham Plant upgrades, we find that Golden State provided sufficient explanations why prior projects were not undertaken and that it is committed to pursuing this project. Thus, we find that this project is reasonable and should be approved.

6.1.4.4. Southwest CSA

Two capital projects in Southwest CSA are being disputed and these are: (a) \$300,000 each year from 2015 to 2017 and \$1,231,629 for site remediation at the Chadron Plant; and (b) \$3,630,804 for continuing work at abandoning a well in Truro Plant.

6.1.4.4.1. Positions of the Parties

6.1.4.4.1.1. ORA

ORA claims that Golden State should make a request to the Regional Board to determine whether it can qualify for being relieved of further responsibility for remediation work at the Chadron Plant. Regarding continuing work in abandoning a well at the Truro Plant, ORA states that ratepayers should not have to pay for the extra costs associated with abandoning the well at Truro Plant as Golden State should have foreseen the possibility of methane gas being released.

6.1.4.4.1.2. Golden State

Golden State argues that it does not yet qualify to be relieved of clean-up responsibility at the Chadron Plant. Regarding the extra costs in abandoning the well at Truro Plant due to the release of methane gas, Golden State claims that this was something that they could not have foreseen and are pursuing insurance claims to recover costs.

6.1.4.4.2. Discussion

From the evidence, the amounts requested by Golden State for site remediation at the Chadron Plant is for the purpose of soil remediation activities due to groundwater contamination from a previously operated underground storage tank. Golden State presented testimony that the site had just recently been inspected by the Regional Board and was informed that the amount of remediation activities undertaken thus far, does not yet qualify Golden State from relief.⁸⁷ ORA presented no evidence to contradict this fact. Based on the above, we find that the requested amount for site remediation at the Chadron Plant is supported by the evidence, is reasonable, and should be approved.

Regarding the amount requested for abandoning a well at the Truro Plant, we find that the project and requested amounts are reasonable and should be approved. Abandonment of the well was approved in a prior GRC but Golden State is requesting an additional \$3.6 million for mitigating activities due to the release of methane gas from the well. Golden State was aware of the existence of methane gas and this was the reason why the well is being

⁸⁷ See GS-129 at 225.

abandoned. Golden State also informed the contractor about the presence of methane gas. Thus, it follows that Golden State would have taken precaution since it was already aware of the methane gas issue. Additionally, ORA did not provide any support for its conclusion that Golden State did not take necessary steps to avoid the incident. Based on the above and the evidence presented, we find that the release of methane gas from the well was beyond Golden State's control.

6.1.4.5. Region 2 SCADA Projects

ORA agrees with the necessity of seven SCADA projects in Region 2 but recommends that the cost for SCADA interconnections present in all seven SCADA projects be reduced from \$97,637 to \$67,973 for each project. The seven SCADA-related projects are: (1) Norwalk SCADA; (2) Bell-Bell Gardens SCADA; (3) Flrnc-Grhm SCADA; (4) Willowbrook SCADA; (5) Southwest SCADA; (6) WB-11, Abandon; WB-15, Upgrade; and (7) WB-24, WB-34, Upgd Vault&SCADA.

After review of the evidence presented by the parties, we agree with ORA and find that Golden State's requested amounts for the SCADA projects specified above should each be reduced by \$29,664. We find that it is appropriate to use the average cost of SCADA interconnections used in prior such projects rather than the highest cost. Prior interconnection costs ranged from \$46,365 to \$97,637 and had an average cost of \$67,973.

6.1.5. Region 3 Projects

6.1.5.1. Los Alamitos CSA

The disputed capital projects for the Los Alamitos CSA are as follows: (a) \$596,800 in 2015 and \$3,480,000 in 2016 to drill and equip a new well at the Simone Plant; (b) \$86,000 in 2017 for design costs of a pump-to-waste drain pipe

system at the Howard Plant;⁸⁸ (c) \$129,600 to install a pump-to-waste drain facility at the South Cypress Plant; (d) \$289,100 to install a VFD at a well in Valley View; (e) \$177,800 in 2016 and \$1,027,400 in 2017 to install a Phase III SCADA in the West Orange System; and (f) \$109,500 in 2015 and \$632,800 in 2017 for recoat and drain improvements of the Floresta West tank.

6.1.5.1.1. Positions of the Parties

6.1.5.1.1.1. ORA

ORA states that a new well at the Simone Plant is not needed because there is enough water supply in the area. ORA recommends that the two pump-to-waste projects be disallowed because there have been no citations against Golden State due to water flowing in the streets and that ratepayers should not have to pay for Golden State's efforts to be a "good neighbor" in those areas. ORA also objects to the VFD project arguing that the existing valve is still in good working condition. Regarding the SCADA project, ORA claims that this is not needed because there are no reports of flow violations. Lastly, ORA states that Golden State has already made improvements in the area where the Floresta Tank is such that it does not require the full amount requested for the project.

6.1.5.1.1.2. Golden State

Golden State states that per its calculation, there is a supply shortage that the proposed Simone Well will resolve. Golden State also argues that it should have the capacity to pump as much groundwater as it is allowed to because this is less expensive than having to purchase water. Regarding the pump-to-waste

⁸⁸ Actual construction will be requested in a future GRC.

projects, Golden argues that it should not wait until it is cited before taking remedial steps to address water flowing into the streets. Golden State provided various benefits that the VFD and SCADA project will provide and added that the SCADA project will provide more benefits than just addressing flow violations. Lastly, with respect to the recoat and drain improvements for the Floresta West tank, Golden State explains that the work it has performed is only maintenance work such as paving portions of the ground and filling pot holes, and that it has not made any improvements with regards to drainage, which is part of what the project will address.

6.1.5.1.2. Discussion

Regarding the request for a new well at the Simone Plant, we find that based on the evidence and arguments of the parties, the request for a new well at the Simone Plant should not be approved at this time. The Orange County Water District, which regulates groundwater production, maintains a basin production percentage which is currently set at 70 percent and Golden State currently has capacity to produce 70 percent. The argument that this may be raised to 75 percent later on works against the timeliness of this proposed project. There was also conflicting accounts whether current water needs are being met. We find that even if it is correct to rely on information dating back to 2006, as opposed to relying on more recent trends, we should also take into account the effect of drought conditions and the water reduction mandate of the Governor which points to less demand at present and near future times. Thus, we are not convinced that there is a demand deficiency at this time and that this project may be better requested in a future GRC.

Regarding the two pump-to-waste requests, it was clear that there is a certain volume of water that is discharged to the streets and we find the amount

discharged which is from 5,000 gallons to 85,000 gallons to be significant. Golden State also presented photographs of flooding caused by water being discharged to the streets which is clearly a safety issue. We should not wait for actual citations or accidents to occur before finding that this should be addressed. Therefore, we find that the two pump-to-waste drain pipe systems at the Howard Plant⁸⁹ and South Cypress Plant are reasonable and should be approved.

Regarding the VFD, while Golden State presented numerous benefits that can be derived from a VFD, it was established that the existing valve is still in good condition and it was not clear how old this valve is and how long it can still function properly to balance against the costs of obtaining a new valve. Obviously, a new valve will presumably be better than an old one especially since the new valve being proposed can regulate pressure. However, these benefits must be balanced against costs and the condition and functionality of the valve to be replaced. In view of the above, we find that it is reasonable to disallow the request for a VFD for a Valley View Well at this time.

Golden State provided sufficient evidence explaining the many other benefits of having a SCADA system other than to address issues with respect to water flow. We find that the benefits of having a SCADA system benefits ratepayers and will potentially result in savings as Golden State will improve its efficiency and monitoring of its systems. Thus, we find that the amount requested to install a SCADA in the West Orange System is reasonable and should be approved.

⁸⁹ Golden State is only requesting for design costs in this GRC. Actual construction costs will be requested in a future GRC.

ORA does not contest the need for drainage at the Floresta West Tank but asserts that Golden State had already improved half the area for site drainage. Golden State however, clarified that the work done was patch-up work and regular maintenance and does not address drainage. Given the additional information provided by Golden State, we find that the recoat and drain improvements for the Floresta West Tank are necessary, reasonable, and should be approved.

6.1.5.2. Placentia CSA

The disputed capital projects for the Placentia CSA are the following:

(a) \$413,100 in 2015 to install three PRVs, flow control stations and related vaults in Rangeview, Deerhaven and Overhill Pipe;⁹⁰ (b) \$799,200 in 2015 to install two PRVs, valves, and a secondary main line on Brier Lane, Newport Boulevard and Greenbrier Lane;⁹¹ (c) \$447,000 in 2017 to cover costs of design to construct a new well in Fairhaven;⁹² (d) \$144,300 in 2016 and \$661,000 in 2017 to install a Phase III SCADA in Placentia; and (e) \$55,000 in 2016 and \$388,000 in 2017 to install a Phase III SCADA in the Yorba Linda System.

6.1.5.2.1. Positions of the Parties

ORA opposes the two PRV projects in the northeast and north areas of the Clearview Reservoir Zone because these projects were not identified in the master plan for Cowan Heights system and because there have been no complaints regarding high water pressure. ORA supports the construction of a

⁹⁰ These areas are located in the northeast portion of the Clearview Reservoir Zone.

⁹¹ These areas are in the north section of the Clearview Reservoir Zone.

⁹² Only the cost for the design is being requested. An estimated \$2 million will be requested in Golden State's next GRC.

new well in Fairhaven but recommends that certain conditions be imposed on Golden State. Regarding the SCADA projects, ORA opposes both SCADA projects because flow violations in the areas where it will be installed are not at a level that would justify such an investment.

6.1.5.2.2. Discussion

Regarding the PRV and related projects in the north and northeast areas of the Clearview Reservoir Zone, Golden State presented testimony stating that it relies not only on its Water Master Plans for its capital project planning, it also relies on input from its Operations Department.⁹³ Golden State also provided evidence of two complaints relating to water pressure⁹⁴ and explained that customers have pressure reducing valves on meter assemblies such that they may not be aware of a pressure problem even if there is one. Finally, Golden State explained that the projects are to comply with GO 103-A. We find that the reasons and testimony provided by Golden State support and justify the PRV and related equipment installations. Thus, we find that the funds requested to install three PRVs, flow control stations and related vaults in Rangeview, Deerhaven and Overhill Pipe, and to install two PRVs, valves, and a secondary main line on Brier Lane, Newport Boulevard and Greenbrier Lane, are reasonable and should be approved.

With respect to the cost design for a new well in Fairhaven, we note that ORA agreed that this new well is necessary. ORA, though, is recommending that the Commission impose certain conditions with respect to the timetable,

⁹³ See Exhibit GS-129.

⁹⁴ See Exhibit GS-129c.

presenting a completed design in the next GRC, and bidding. Golden State opposed the recommended conditions, stating that the timetable proposed by ORA is not reasonable. After review of the testimonies and arguments raised by ORA and Golden State, we find that the requested amount for design costs to construct a new well in Fairhaven is reasonable and should be approved. Actual construction will be requested in Golden State's next GRC. With respect to the conditions recommended by ORA, we find that these are not necessary. We also note that the Commission has a policy of refraining from micro-managing specific activities of utilities and we do so here.

With respect to the two SCADA projects being disputed, Golden State presented other benefits that the SCADA installation will provide other than addressing flow violations. We find that these benefits are sufficient to support the installation of SCADA in these areas. Thus, we find that the amounts requested to install SCADA systems in Placentia and Yorba Linda are reasonable and should be approved.

6.1.5.3. Foothill District Office

Golden State is requesting \$140,900 in 2016 to purchase two portable booster pumps. ORA opposes the request stating that Golden State can continue to rent pumps when needed.

6.1.5.3.1. Discussion

Golden State and ORA cited instances when Golden State had rented booster pumps used in emergency situations. The examples cited show that it took approximately eight hours to rent the pumps and put them in operation. Based on this fact, we find the request to be reasonable and should be approved. Having its own booster pumps will enable Golden State to timely respond to emergency situations especially when time is of the essence.

6.1.5.4. Claremont CSA

The disputed Claremont capital projects are the following: (a) \$288,200 in 2015 and \$1,680,400 in 2016 to install a new Pomello Well; (b) \$272,100 in 2015 and \$1,629,300 in 2017 to add an arsenic treatment system at the Del Monte Well; and (c) \$236,300 in 2016 and \$1,365,900 2017 to replace the booster station at the Pomello Plant.

6.1.5.4.1. Positions of the Parties**6.1.5.4.1.1. ORA**

ORA opposes the installation of a new well in Pomelo and the arsenic treatment system for the Del Monte Well because Golden State has enough capacity for the Claremont CSA. ORA also opposes the replacement of the booster station at the Pomello plant because existing booster pumps are operating efficiently.

6.1.5.4.1.2. Claremont

Claremont questions the timing of the proposed capital projects in light of the city's condemnation activities stating that Golden State is purposely inflating the value of its assets in the Claremont CSA.

6.1.5.4.1.3. Golden State

Golden State argues that a new Pomello Well and arsenic treatment at the Del Monte Well to bring it back to use are needed to meet water demands in the system and that the average demand fluctuates heavily in the Claremont system. Golden State also states that the two wells support its practice of applying firm capacity. With respect to the booster station replacement, Golden State provides that this is needed to address water deficiency in the Claremont Heights Zone.

6.1.5.4.2. Discussion

Based on the evidence and arguments presented by the parties, we find that the amounts requested to install a new Pomello well are reasonable and should be approved. Golden State provided sufficient evidence to justify replacement of at least one of its aging wells and that the additional capacity provided by this new well will help it meet its demand needs in Claremont.

However, we do not totally discount the arguments raised by ORA. We find that there may be times when water demand may be alleviated somewhat by Golden State's interconnected systems. We also note that there was insufficient evidence to show how often and how long water demands exceed the yearly average by 50 percent.

Based on the above and because we are already approving the installation of a new well in Pomelo which will increase Golden State's capacity, we find that the arsenic treatment system for the Del Monte Well in order to bring it back to use is not needed during this GRC cycle. We also note the declining demand in recent times in the Claremont CSA, as well as the Governor's water reduction mandate.

With respect to the request to replace the booster station at the Pomello Plant, we find that there was sufficient evidence presented showing the need for this project and we find this project to be reasonable and should be approved. Golden State presented evidence that at least two boosters are operating at low levels of operating efficiency. Golden State also demonstrated need for the project to address supply deficiency in the Claremont Heights Zone.

With respect to the concern raised by Claremont, we note that the decision and reasonableness of each project is reviewed and examined through a comprehensive review of the record and positions presented by the parties.

6.1.5.5. San Gabriel CSA

The disputed capital requests for San Gabriel are the requests of \$24,800 in 2015, \$173,800 in 2016 to replace the disinfection buildings at Encinita and Farna, \$24,800 in 2015 and \$178,500 in 2017 to replace the disinfection building at the Persimmon site, and \$18,500 in 2015 and \$127,900 in 2017 to replace the disinfection building at the San Gabriel Plant.

6.1.5.5.1. Discussion

The only dispute for the above projects is with respect to costs and we find the requested amounts are reasonable and should be approved. The difference in recommended costs between Golden State and ORA is due to the fact that ORA's recommended costs are based on temporary disinfection facilities that were installed while permanent facilities were constructed.

6.1.5.6. Barstow CSA

Golden State's disputed capital requests for Barstow are as follows:

(a) \$32,900 in 2016 and \$227,000 in 2017 to replace electrical panels for two Bradshaw Wells; (b) \$13,500 to install a transfer switch; (c) \$292,200 in 2016 and \$1,688,300 in 2017 to construct a storage tank at the Eaton Plant; (d) \$117,400 in 2016 and \$1,027,100 in 2017 to relocate 1400 linear feet of pipeline; (e) \$3,311,712 to continue work on the Linda Vista reservoir, pipeline and H Street booster station project; and (f) \$4,392,371 to continue work on the Irwin Reservoir and Transmission Main project.

6.1.5.6.1. Positions of the Parties**6.1.5.6.1.1. ORA**

ORA states that the two Bradshaw wells are not necessary to provide adequate water supply in the city and so there is currently no need to replace electrical panels for the two wells. ORA agrees with the need for a transfer

switch but believes that the well, which is one of the Bradshaw wells discussed above, where the switch will be installed is not necessary at this time.

Regarding the storage tank for the Eaton Plant, ORA contends that this is not needed because there is no storage deficiency in the area.

ORA objects to the relocation of 1400 linear feet of pipeline stating that the city's bridge replacement project, which is the reason the pipeline has to be relocated, is uncertain.

ORA recommends that the Linda Vista reservoir, pipeline, H Street booster and Irwin reservoir be removed from consideration in this GRC as it is uncertain whether Golden State can begin construction because easement permits are needed from the Bureau of Land Management.

6.1.5.6.1.2. Golden State

Golden State states that ORA's calculation regarding the water supply in Barstow does not take into account the two wells being offline.

Regarding the storage tank at the Eaton Plant, Golden State argues that storage is needed to maintain adequate water for fire protection.

With respect to the pipeline relocation pipeline, Golden State states that the city is scheduled to begin construction in 2017, and that it must relocate its pipeline before then.

With respect to the Linda Vista and Irwin reservoirs, Golden State is awaiting final approval of easement requests from the Bureau of Land Management. Golden State states that it has already submitted documentation and responded to and addressed comments by the Bureau of Land Management.

6.1.5.6.2. Discussion

Based on the evidence and arguments presented, we find that the request to replace electrical panels for two Bradshaw wells and the request to install a

transfer switch at one of these wells is reasonable and should be approved. It was adequately shown that the two wells are necessary to maintain adequate water supply in Barstow and that it is prudent and safe to replace the aging electrical panels. There was no argument regarding the need for the transfer switch, only the need for the well where the switch is to be installed.

Regarding the storage tank at the Eaton Plant, Golden State distinguished between the need for adequate storage for fire protection which requires facilities in addition to those required for domestic water supply. Thus we find the requested funds for the storage tank to be reasonable and should be approved.

Regarding the pipeline relocation, the record shows that the project is necessary because the bridge and water main attached to the bridge where the pipeline is connected will be demolished and reconstructed. As such, the pipeline has to be relocated underground. With respect to timing, Golden State provides that the city already received funding for the bridge reconstruction and that construction is set to begin in 2017.⁹⁵ In addition, the pipeline has to be relocated prior to the bridge construction and it is reasonable to assume that Golden State will receive notice from the city and will need to begin the pipeline relocation project during this GRC cycle. Thus, the requested amount for the pipeline relocation project should be approved.

From the evidence, it appears that the Linda Vista reservoir project requires an easement approval from the Bureau of Labor and Management and indeed, Golden State has already submitted a request and necessary documentation in order to obtain approval. However, the request for an

⁹⁵ See Exhibit 129 at 301.

easement was made in June 2013, and Golden State has not received final approval of the easement request.

Because it is not certain if and when this easement request will be granted, we find it reasonable to withhold approval of funds requested in this GRC for this project until the easement request is approved or until such time that Golden State presents sufficient evidence supporting approval of the easement request within a specific timeframe. Because the Linda Street pipeline and H Street booster station project require the Linda Street reservoir, approval of the funds requested in this GRC are also withheld. Golden State may include these projects in its next GRC cycle.

We also withhold approval of funds requested for the Irwin Reservoir and Transmission Main project for the same reasons given with respect to the Linda Street reservoir. The Irwin Reservoir likewise requires an easement approval from the Bureau of Land Management and it is uncertain if this approval will be obtained and whether construction can begin during this GRC cycle.

6.1.5.7. Morongo Valley CSA

Golden State requests \$617,000 in 2015 for the installation of a uranium removal system for the Elm Well and to construct a reservoir in the Mojave Tank Zone which will require \$196,700 in 2016, for land acquisition and \$1,136,600 for the balance of the project.

6.1.5.7.1. Positions of the Parties

ORA states that the Elm Well is not necessary to meet storage requirements and that the Mojave Tank Zone project should be capped \$1,333,300.

Golden State states that there is a high concentration of uranium in the area and its two other wells do not have a uranium removal system. For the

Mojave Tank Zone project, Golden State argues against setting a cap for the project because the land to be acquired will likely require that a premium be paid.

6.1.5.7.2. Discussion

ORA does not contest that uranium levels are high in the area and the installation of a uranium removal system will make the Elm Well operational once more and ensure that there is sufficient storage should either of the two other wells in the area become contaminated with uranium. Thus, we find the request to install a uranium removal system at Elm Well to be reasonable and should be approved.

Regarding the construction of a reservoir in the Mojave Tank Zone, we agree with setting a cap for the project. Golden State discusses the likelihood of having to pay a premium to acquire the land it plans to acquire. However, Golden State did not present sufficient evidence on how much of a premium it expects to pay and whether such a premium would be too costly and unreasonable for ratepayers to bear. Thus, because of uncertainty regarding the acquisition of property for the project, we agree with ORA and find it reasonable to allow this project as an Advice Letter project and to set a spending limit of \$1,333,300, which is the amount requested by Golden State.

6.1.5.8. Apple Valley CSA

For capital projects in Apple Valley, Golden State is requesting:

- (a) \$425,900 in 2017 to construct a reservoir in the Yucca Booster Zone;
- (b) \$2.8 million for drilling and equipping a new well at the Kiowa Plant;
- (c) \$335,400 in 2017 to construct a reservoir and booster station at the Kiowa Plant;
- (d) \$181,800 for the installation of a transfer switch at the Mohawk Plant;

and (e) \$3,404,330 in 2015, to continue work on the Valley Crest Reservoir and Booster Station.

6.1.5.8.1. Positions of the Parties

ORA contests the need for the new well, reservoir, and booster station at the Kiowa Plant stating that the current well can be rehabilitated for \$500,000 and is enough to supply the needs of customers in Apple Valley. ORA also contests beginning construction of the Yucca Booster Zone until Golden State finishes construction of another reservoir in Valley Crest. ORA states that the transfer switch for the Mohawk Plant is not needed and that the Valley Crest Reservoir Booster Station should be deferred to 2016.

6.1.5.8.2. Discussion

After review of the evidence and arguments raised by ORA and Golden State,⁹⁶ we find that construction of a reservoir in the Yucca Booster Zone and construction of a new well, reservoir and booster station at the Kiowa Plant should be approved.

Golden State explained that delay in construction of the Valley Crest Reservoir and Booster Station is due to the need to obtain easements as opposed to delays due to actual construction. Thus, we find that there is no need to delay construction of the reservoir in the Yucca Booster Zone. Regarding the Kiowa well, we agree that the current well needs to be replaced and that rehabilitating this well for \$500,000 would only extend its use for a short time. Because we find that construction of a new well at the Kiowa Plant is reasonable, we also find that

⁹⁶ See Exhibit GS-31 and Exhibit ORA-9.

construction of a reservoir and booster station at the Kiowa Plant is reasonable, as these projects will provide storage facilities for the new well.

Because we are granting approval for construction of a new well at the Kiowa Plant, installing a transfer switch for the old well will no longer be necessary and so the installation of a transfer switch at the Mohawk Plant should be disallowed.

Finally, we agree with ORA that work on the Valley Crest Reservoir Booster Station should be moved to 2017 (instead of 2015), simply because we are already in the 4th quarter of 2016.

6.1.5.9. Wrightwood

Capital projects for Wrightwood include a proposal to hire a consultant to continue pursuing its application for easement permits to construct the Sheep Creek Reservoir and associated piping and a proposal to install a seismically controlled actuator on an existing valve at the Linnet Reservoir.

6.1.5.9.1. Positions of the Parties

6.1.5.9.1.1. ORA

ORA questions the necessity of hiring a consultant to obtain easement permits and disagrees with the solar component of the actuator citing that Golden State already possesses a solar unit at the Linnet Reservoir. ORA also recommends that Golden State be required to seek re-approval of the entire Sheep Creek Reservoir project in its next GRC.

6.1.5.9.1.2. Golden State

Golden State states that it does not have staff to provide the necessary analysis to obtain the easement permits and that the solar unit at the Linnet Reservoir is insufficient.

6.1.5.9.2. Discussion

After reviewing the evidence and arguments raised by ORA and Golden State, we find that the requested amounts of \$102,200 in 2015, \$104,900 in 2016, and \$107,800 for 2018, for the consultant and \$148,400 in 2015, for the installation of a seismically controlled actuator at the Linnet Reservoir are necessary and reasonable and should be approved.

The Sheep Creek Reservoir project was already deemed necessary and was approved during Golden State's prior GRC and there are no other nearby sources of water that can serve as an alternative. Golden State provided evidence about the necessity of a consultant and of obtaining the easement permits. The easements from the United States Forestry Services are necessary to complete the Sheep Creek Reservoir. We also do not find it necessary for Golden State to seek re-approval of the entire Sheep Creek Reservoir project in its next GRC. With respect to the actuator, ORA agreed with the necessity of the project and Golden State provided sufficient explanation and evidence that the existing solar unit that Golden State has is not sufficient to power the actuator, and that is not designed for such purpose.⁹⁷

6.2. Labor Expenses

Golden State's forecast for total labor expenses for TY2016 is based on its 2014 organizational structure of 332 employee positions using actual annual salaries. For TY2016, Golden State is requesting \$5.083 million for Region 1, \$6.570 million for Region 2, and \$8.609 million for Region 3.

⁹⁷ See Exhibit GS-129 at 312.

ORA agrees with Golden State's forecast except for manager and officer compensation, Executive Officer Short-Term Incentive Plan contributions (STIP), Executive Officer Long-Term Incentive Plan contributions (LTIP), merit salary adjustment, and the request for a new procurement department position. ORA recommends \$4.888 million for Region 1, \$6.398 million for Region 2, and \$8.319 million for Region 3. A breakdown of the labor costs requested by Golden State and recommended by ORA for each of Golden State's ratemaking areas is provided in Table 5.1, 5.2 and 5.3 of the Settlement Agreement.

6.2.1. Officer Compensation

For Officer Compensation, Golden State is requesting \$4.874 million for 2015, \$5.065 million for 2016, \$5.158 million for 2017, and \$5.245 million for 2018. Officer Compensation includes annual base salaries for officers, and any STIP and LTIP award.

The amount of Officer Compensation is recommended by a Compensation Committee and recommendations are based on several factors including analysis of a compensation consultant. Analysis by the compensation consultant includes a report which compares Golden State's compensation to a Peer Group composed of similar companies selected by the analyst. During the last 10 years, the Compensation Committee had retained the services of three different consulting firms.

6.2.1.1. Positions of the Parties

6.2.1.1.1. ORA

ORA claims that the only basis of Officer Compensation is the analysis of the compensation consultant which is based on a compensation comparison of Golden State's compensation levels with a selected Peer Group. ORA adds that the recent Peer Group studies are flawed because it includes companies that are

larger and with higher compensation levels than Golden State. ORA recommends that Officer Compensation be reduced by 23.21 percent and that it be based on the 2005 study because the Peer Group in that study is more comparable to Golden State.

6.2.1.1.2. Golden State

Golden State states that the Peer Group is selected by an independent analyst and that three separate consulting firms were engaged to conduct Peer Group studies over a 10-year period resulting in a variety of companies being included in different Peer Group studies. Golden State also adds that the Peer Group study is only one of several factors considered in determining Officer Compensation.

6.2.1.1.3. Discussion

With respect to the basis for Officer Compensation, we find that ORA was not able to sufficiently establish that the Peer Group comparison is the only basis for determining Officer Compensation. Golden State cited various factors considered by the Compensation Committee such as Commission practices and decisions, a shareholder “say on pay” vote, performance assessments, and assessments by members of the Board of Directors.⁹⁸

With respect to the independence of the compensation analyst, we took note that three different firms had undertaken the compensation studies over the last 10 years which supports the argument that the studies were done independent of and without relevant influence by Golden State’s management. Also, the compensation analyst is selected by an independent Compensation

⁹⁸ See Exhibit GS-27R at 8.

Committee, which is independent Golden State's management although we took into account the fact that Golden State's management is responsible for selecting the Compensation Committee. We find that selection, by itself, does not equate to exercising control. Also, there were no allegations or proof that any of the last three compensation analysts received some sort of premium or were paid excessively for their services in conducting their Peer Group study and compensation report which suggests that the studies and reports were conducted without undue influence.

With respect to the study itself, while we agree that companies larger than Golden State were included in the Peer Group, it was not sufficiently established by ORA that the companies that comprised the Peer Group were specifically selected in order to raise the recommended Officer Compensation. Each of the three compensation analysts used different sets of Peer Groups in the studies they conducted. Also, it was not clear how removing a few large companies from the list would affect the recommended compensation for Golden State other than showing that Golden State would move up the Peer Group list if listed according to the level of Officer Compensation.

What the Peer Group list appears to show in general is that larger companies seem to provide higher Officer Compensation but it was not clearly established or shown that removing one or two larger companies from the list would necessarily result in a recommended reduction for Officer Compensation by the compensation analyst. There were also no objections about the Peer Group selection not being comparable to Golden State (other than size) such as being in a different industry or having a different composition. The only objection to the Peer Group was that the composition included companies larger than Golden State but the Peer Group also included companies smaller than

Golden State. More importantly, the Peer Group study was shown to not be the sole basis for determining Officer Compensation.

In view of the above, we find the forecast for Officer Compensation to be reasonable subject to adjustment based on our findings with respect to STIP, LTIP and merit adjustment.

6.2.2. Manager Compensation

For Manager Compensation, Golden State is requesting \$6.554 million for 2015, \$6.724 million for 2016, \$6.819 million for 2017, and \$6.90 million for 2018. Manager Compensation includes base salaries of managers.

6.2.2.1. Positions of the Parties

6.2.2.1.1. ORA

ORA recommends that manager salaries be based on 2005 benchmarks, but because it is not practical to trace back salaries to 2005 levels, ORA suggests that manager salaries be reduced by 23.21 percent because this was the same level of reduction recommended for Officer Compensation.

6.2.2.1.2. Golden State

Golden State argues that ORA did not establish sufficient basis for its recommended reduction and reliance on a 2005 benchmark using analysis applied to Officer Compensation is not applicable to Manager Compensation.

6.2.2.2. Discussion

Upon review of the evidence and arguments presented by the parties, we find that ORA was not able to establish sufficient justification for its recommended reduction of 23.21 percent and basing manager salaries to 2005 benchmark levels. From the evidence, we find that unlike Officer Compensation which is evaluated every year, manager salaries are based on a 1990 study and increases are subject to escalation through mechanisms approved by the

Commission.⁹⁹ Thus, 2005 levels will also be based in part on 1990 levels subject to escalation and neither the 1990 study nor method of escalation were challenged.

For its part, Golden State provided evidence how manager salaries were forecast¹⁰⁰ and based on the above, we find the forecast methodology and basis to be reasonable and find that Golden State's forecast should be approved.

6.2.3. STIP and LTIP

The STIP is a plan that provides each officer an opportunity to earn annual cash incentives equivalent to a certain percentage of an officer's base salary. Each officer's annual award is based on the company achieving certain objectives and the officer's personal performance. Golden State is requesting \$727,000, \$749,000, \$759,000 and \$762,000 for 2015, 2016, 2017, and 2018, respectively for STIP costs.

The LTIP is similar to the STIP except that awards are primarily in the form of restricted stock that vest over a three-year period. For the LTIP, Golden State is requesting \$1.039 million, \$1.118 million, \$1.134 million, and \$1.138 million for 2015, 2016, 2017, and 2018, respectively.

6.2.3.1. Positions of the Parties

6.2.3.1.1. ORA

ORA recommends that Golden State shareholders fund 80 percent of STIP and LTIP costs because only 20 percent of the performance metrics used to determine STIP and LTIP awards have an indirect benefit to ratepayers. In

⁹⁹ See Exhibit ORA-14 (Response to data request AMX-006).

¹⁰⁰ See Exhibit GS-14.

contrast, most of the performance metrics directly benefit shareholders. ORA also recommends that STIP and LTIP awards be based on 2005 levels.

6.2.3.1.2. Golden State

Golden State argues that the STIP and LTIP awards should be based on actual escalated 2016 salary levels and that the STIP and LTIP are part of an officer's overall compensation package and should not be split between ratepayers and shareholders.

6.2.3.2. Discussion

With respect to basing the awards on 2005 salary levels, we refer to the discussion on officer and manager compensation and rule that the awards should be based on current salary levels.

With respect to who should pay for the cost of these awards, we need to examine whether ratepayers or shareholders benefit from such compensation programs.

6.2.3.2.1. STIP

With respect to the STIP, after examination of the evidence presented by both parties regarding this disputed issue,¹⁰¹ we find, from the metrics used in determining STIP awards, that both ratepayers and shareholders benefit from having a STIP plan.

We find that the STIP is part of compensation and serves to attract and retain executives and other employees. The STIP uses operating, individual performance, and financial metrics in deciding whether officers will receive any STIP award or compensation. The operating and individual performance metrics

¹⁰¹ Exhibit ORA 5-C and Exhibit GS-117.

benefit ratepayers in ensuring that officers are carrying out directives and activities to ensure the operational safety and reliability of Golden State's utility systems. At the same time however, the financial and company performance metrics are of benefit to shareholders who in theory will see the price of the stock move upwards. The financial metric may also benefit ratepayers as a result of the companies' lower borrowing costs. We disagree with Golden State that costs should not be shared by ratepayers and shareholders because both ratepayers and shareholders, as discussed above, directly benefit from the presence of this award.

As for the proper allocation of STIP costs, ORA contends that only 20 percent of STIP costs have a bearing towards ratepayers but after reviewing the arguments by both parties, we agree with Golden State that other metrics that ORA deemed as providing benefits to shareholders only, also benefit ratepayers such as metrics pertaining to water quality, reliability of service, and Occupational Safety and Health Administration (OSHA) recordable work incidents. Because ratepayers and shareholders equally benefit from the STIP program, we find that the costs for STIP should be divided equally between ratepayers and shareholders. We therefore reduce the requested amounts for STIP by 50 percent to reflect the benefits that shareholders receive from having a financially strong company, while recognizing that the STIP is a valuable tool for attracting and retaining skilled professionals to run and manage the company, and to carry out and meet safety, diversity, and customer service goals.

6.2.3.2.2. LTIP

As stated previously, LTIP awards are primarily in the form of restricted stock that vest over a three-year period. Similar to our analysis of the STIP, in order to decide who should pay for the cost of long term compensation, we need

to examine whether ratepayers or shareholders benefit from this compensation program. In addition, we also look at how the Commission has treated such costs in the past.

In analyzing the mechanics of the LTIP, we note that since this compensation is primarily stock-based, this means that when officers are awarded stock units, the value of the stock units will grow if the company's stock price increases. This means that awardees of stock units have an incentive to align with the company's goals that improve the financial standing of the company and on other issues that raise the stock price. We also note that the LTIP vests over a three-year period which means the award is tied to three years of financial performance. These factors all point to benefits which accrue to shareholders.

With regard to the Commission's past treatment of long term compensation, our review of the decisions show that the Commission has generally disallowed long term incentive compensation. Although many companies offer long term compensation plans, this does not necessarily mean that ratepayers should have to pay for the costs of funding such programs. In considering whether such costs are reasonable, we find that the benefit of this type of compensation plan clearly benefits officers and shareholders if the value of the stock goes up. Since this stock-based compensation is tied to financial performance over a period of time, it clearly demonstrates that a premium is being placed on the companies' financial performance. In addition, the officers who will receive the stock-based compensation are already highly compensated through their base pay, the STIP, and other incentives.

Another consideration is the cost to ratepayers, who see little benefit from such a program, but face increased costs if the cost of the long term incentive compensation program is included in the revenue requirement.

While we recognize that this type of compensation also benefits ratepayers by attracting and retaining employees who are qualified, experienced and high-performing, based on all the considerations discussed above, we find it reasonable to disallow ratepayer funding of the costs of the LTIP.

6.2.4. Merit Salary Adjustment

Golden State is requesting to create a pool of funds equal to one percent of total base salaries of all employees. Amounts from this fund will be added to the base salaries of its highest performing employees.

6.2.4.1. Positions of the Parties

6.2.4.1.1. ORA

ORA recommends that the one percent Merit Salary Adjustment be disapproved as the program has not been effective in retaining qualified and experienced employees. Alternatively, ORA suggests that the one percent Merit Salary Adjustment be funded by shareholders.

6.2.4.1.2. Golden State

Golden State states that the recent reduction in unemployment suggests that there is a stronger market for high performing employees.

6.2.4.2. Discussion

After review of the evidence and arguments raised by the parties, we find that the one percent Merit Salary Adjustment should be granted. We agree with Golden State that reduced unemployment and the fact that Golden State has been losing employees as ORA has pointed out, means that Golden State has to

increase its efforts in order to retain highly qualified and high performing employees. And the Merit Salary Adjustment is an important means to do so.

The one percent Merit Salary Adjustment was also requested in Golden State's 2008 GRC and was approved by the Commission in D.10-11-035. We find, as we did in D.10-11-035, that the Merit Salary Adjustment benefits ratepayers, to the extent that the program helps Golden State in retaining qualified and experienced employees.

In addition, we find that the manner in which Golden State proposes to implement the one percent Merit Salary Adjustment can be considered as part of labor costs necessary to retain qualified and skilled employees, and that it does not amount to an unreasonable salary increase. Thus, we find it proper for ratepayers to bear the burden of this cost.

6.2.5. Procurement Department Position

Golden State requests one new position for the creation of a new Centralized Procurement Department which, according to Golden State, will focus on actively managing and building strategic relationships with internal and external stakeholders, key suppliers and service providers in an effort to maximize the value of the goods and services procured by Golden State."¹⁰²

6.2.5.1. Positions of the Parties

6.2.5.1.1. ORA

ORA recommends that the Commission direct Golden State to conduct a cost-benefit study to validate Golden State's claim that the new Centralized Procurement Department will provide savings.

¹⁰² Exhibit GS-114 at 11.

6.2.5.1.2. Golden State

Golden State argues that a cost-benefit study is not necessary and that such a study will only add to costs for the new department.

6.2.5.2. Discussion

Upon review of the testimonies and arguments presented by ORA and Golden State, we find that Golden State provided reasonable and sufficient evidence of the projected benefits of the new Centralized Procurement Department.¹⁰³ In addition, the Commission has a policy against micro-managing utility operations such that the creation of this new department should be left to Golden State's discretion given that it has provided sufficient evidence regarding the necessity, functions, projected benefits, improvements and projected cost savings that the new department will achieve. Based on the above, we find that the new position, in connection with the creation of the new Centralized Procurement Department being requested by Golden State should be approved.

6.3. General Office

As previously stated in Section 4.9.1 of the decision, Golden State and ORA did not agree on the necessity of certain capital projects, and the projected costs for other projects. For General Office projects, there were differences regarding costs for Luxury Vehicles, General Office Construction Work in Progress, Annual Software License Renewals and Maintenance Agreements, and Improvements for the Anaheim Office.

¹⁰³ See Exhibit GS-114 at 11.

6.3.1. IT Upgrades Capital Upgrades General Office Plant**6.3.1.1. IT Upgrades**

Golden State is requesting a total of \$1,202,500 to upgrade its Information Technology (IT) network equipment and security firewalls, \$108,500 each year from 2015 to 2017 for additional disk storage, \$236,800 each year for 2015 to 2017 for its Data Center Hardware Refresh project to replace server hardware, \$288,600 each year from 2015 to 2017 to upgrade personal computers and peripherals, and \$10,000 to upgrade consolidated financial reporting software.

6.3.1.1.1. Positions of the Parties**6.3.1.1.1.1. ORA**

Regarding Golden State's request to update network equipment, ORA states that even if vendor support for Golden State's products has been discontinued, it does not necessarily mean that these should be replaced immediately and that these are not functioning properly.

With respect to the Data Center Refresh project, ORA recommends that it be denied because Golden State provided its own list of the retirement announcement date for some products without any supporting evidence.

With respect to the requested amount for the replacement of personal computers and peripherals, ORA recommends \$4,378.

With respect to the financial reporting software upgrade, ORA cited that the vendor's estimated costs is \$7,040 and recommends that this amount be approved.

6.3.1.1.1.2. Golden State

With respect to its request to update Network Equipment, Golden State provides that maintaining up-to-date and vendor supported software is crucial

in maintaining system security and that the equipment it is seeking to replace is nearing its five-year life cycle.

With respect to the request for data storage, Golden State provides that it has increasing storage needs in part to keep up with compliance needs and that ORA's recommended amounts were based on 2013 data.

With respect to the Data Center Refresh project, Golden State provides that its servers and other related equipment need to be kept up-to-date and cited the importance of the products having vendor support.

With respect to the request for funds to replace personal computers and peripherals, Golden State states that ORA agreed with the four-year replacement scheduled and points out that \$4,378 is obviously not enough to replace around 850 computer systems.

With respect to the financial reporting software upgrade, Golden State argues that ORA did not include associated travel costs.

6.3.1.1.2. Discussion

6.3.1.1.2.1. Network Equipment

With respect to network equipment, we agree with Golden State that maintaining up-to-date software is essential in maintaining security and preventing cyber-attacks. We also find that software-related products are more susceptible to failure and vulnerability to outside attacks if they become outdated. Golden State also provided testimony regarding prior instances of cyber-attacks on its systems. We also find that there was evidence to show that many of Golden State's network-related equipment are nearing their proper replacement cycle of up to five years. However, the request also includes replacement of hardware such as routers and switches which are not necessarily completely obsolete after a short period. Also, Golden State admits that not all

equipment is at its five-year cycle. Because it is not clear what portion of network equipment being replaced pertains to hardware and whether some of these would still be usable during this GRC cycle, we find that the requested amount should be reduced. Based on the above, we find that it is reasonable to reduce the request for \$1,202,500 for Network Equipment upgrades by 10 percent, and that \$1,082,250 should be granted.

6.3.1.2. Additional Storage

We find that Golden State provided sufficient evidence and explanation to support the request for additional storage, citing increasing compliance requirements and switching from magnetic tape storage to hard disk storage. Thus we find that the request of \$108,500 each for three years, or \$325,500 total is reasonable and should be approved.

6.3.1.3. Data Center Refresh Project

Golden State provides that it is difficult maintain hardware and software across multiple vendors but its proposed solution is to refresh hardware and software every three to five years as opposed to simply using one or two vendors. Also, from the arguments by the parties, it appears that support for some of Golden State's hardware and software has not been completely phased-out but that only some products are currently not supported. We also note that when a vendor ceases to support a particular product as newer models are released, it does not necessarily mean that the product just ceases to function. We are cognizant however about the advantages of having the most up-to-date products but must balance this with costs involved and usefulness of products that are a few years old. Given the lack of evidence to show which specific equipment are outdated and completely unsupported, we find that granting approval for two out of the three years of requested costs is reasonable. Thus, for

the Data Center Refresh project, we find that \$236,800 each for 2017 and 2018, or a total of \$473,600 should be approved. The requested budget for 2015 is denied. Additionally, ORA's recommended adjustment to CWIP is denied. ORA's recommendation is based on the assumption that Golden State has completed its prior Data Center Refresh project, which it has not.

6.3.1.4. Personal Computers and Peripherals

The four-year replacement of computers was not objected to by any party. According to Golden State, applying this four-year replacement schedule results in 213 computers that need to be replaced each year.¹⁰⁴ Applying the requested cost of \$1,119 for each however results in \$238,347. We also find that adding seven spare devices was not justified and is not merited given that each system will have to be replaced in just four years. Based on the above, we find that \$238,347 each year or a total of \$715,041 for three years is reasonable and should be granted instead of the \$865,800 requested.

6.3.1.5. Upgrade Consolidated Financial Reporting Software

After review and analysis of the evidence and arguments raised by the parties, we find that the request for \$10,000 to upgrade consolidated financial reporting software is reasonable and should be approved. ORA agreed with the necessity of the project and does not dispute the vendor-quoted cost of \$7,040 for labor. ORA did not include any amount for travel expenses and Golden State sufficiently explained and justified the method and amount for computing associated travel costs.

¹⁰⁴ See Exhibit GS-122.

6.3.2. Software License Renewals and Maintenance Agreement

This section involves Golden State's capital request of \$547,400 for 2015, \$528,000 for 2016, and \$499,500 for 2017, for payments relating to the purchase of Golden State's Microsoft Operating System and Professional Office Suite software, renewal of its three-year Computer Software license, and upgrades to its Antivirus software.

6.3.2.1. Positions of the Parties

6.3.2.1.1. ORA

With respect to the Software License Renewals and Maintenance Agreements, ORA recommends that the costs be treated as expenses rather than capital costs and recommends that the forecast be based on a five-year average.

6.3.2.1.2. Golden State

Regarding Software License Renewals and Maintenance Agreements, Golden State explains that these are purchases and should be treated capital costs and disagrees with a five-year average for its forecast because annual costs increase.

6.3.2.2. Discussion

We agree with ORA that annual license renewals should be treated as expenses rather than as capital upgrades. However, upon examination of the evidence presented,¹⁰⁵ we find that the Microsoft Operating System and Antivirus software upgrades are actually new purchases as opposed to license renewals that are renewed from year to year. Payments to the Microsoft software were explained to be in installments and these installment payments

¹⁰⁵ Exhibit GS-23, ORA-2 and Exhibit GS-122.

represent payments for the purchase as opposed to payments for annual renewals. Thus, these should be treated as capital costs.

The three-year Computer Software License though, appears to be a license renewal every three years and should be treated as an expense as it is a recurring expense as opposed to a one-time capital expense. With respect to the projected costs, we agree with Golden State's forecast and disagree with the use of a five-year average as costs are expected to increase from year to year. Based on the above, Golden State's requested amounts for Software License Renewals and Maintenance Agreement should be approved.

The Geographic Information System (GIS)-related softwares should be treated as a capital expense for 2015, and the license renewals for these are to be treated as expenses for 2016 and 2017.

6.3.3. GIS Project

The GIS Project is for the implementation of a GIS system designed to capture, store, manipulate, analyze, manage, and present all types of geographical data. Golden State requests \$1.784 million for 2015, \$1.311 million for 2016, and \$2.383 million for 2017.

6.3.3.1. Positions of the Parties

6.3.3.1.1. ORA

With respect to the GIS project, ORA recommends that this project be disallowed because it was not established that this project will benefit ratepayers.

6.3.3.1.2. Golden State

On the other hand, Golden State states that the GIS project will provide benefits to ratepayers and is expected to reduce costs.

6.3.3.2. Discussion

After review of the evidence presented and the arguments raised by the parties, we find that Golden State provided sufficient justification with respect to the implementation of the GIS project. The GIS system will help with Golden State's operational efficiency with respect to its ratemaking areas that are spread out in California. Also, the GIS system will help Golden State maintain its aging infrastructure. Golden State provided evidence as to projected benefits of the project and explained how the project will improve operational efficiency and benefit ratepayers. We agree that the project will provide benefits to ratepayers, enhance Golden State's operational efficiency, and promote safety. Thus, we find the requested amounts for the GIS project should be approved.

6.3.4. General Office Vehicles

This section deals with Golden State's request to replace two vehicles and to purchase an additional vehicle for the Anaheim office. Golden State also requests funds to purchase luxury vehicles for its executives and to be reimbursed for costs of luxury vehicles already purchased.

6.3.4.1. Positions of the Parties**6.3.4.1.1. ORA**

ORA disagrees with the purchase of an additional pool vehicle for the Anaheim office because employees rarely use pool vehicles. On the expenses for luxury vehicles, ORA states that ratepayers should only have to fund costs for non-luxury vehicles and recommends that \$32,545 be allotted for each vehicle. ORA also recommends that Golden State be required to provide vehicle purchase information over the last five years in its next GRC.

6.3.4.1.2. Golden State

Golden State states that there are 27 employees at the Anaheim office that share three existing pool vehicles and that a fourth vehicle is necessary. With respect to the reimbursement for the purchase of luxury vehicles, Golden State argues that \$39,000 for each vehicle should be authorized as ORA did not challenge proposed costs of vehicles for managers. Regarding ORA's recommendation for vehicle reporting requirements, Golden State states that this is not necessary as it had provided all information regarding vehicle purchases to ORA in this GRC.

6.3.4.2. Discussion

With respect to the replacement of two pool vehicles, it appears that ORA and Golden State are in agreement and we find that it is reasonable to replace two old pool vehicles at the Anaheim office. Replacement of these old vehicles promotes safety. With respect to the addition of a fourth pool vehicle, we agree with ORA it is not necessary at this time. From the evidence,¹⁰⁶ it appears that the number of employees at the Anaheim office increased because of employee transfers from the San Dimas office. As such, Golden State should first explore the option of permanently transferring a pool vehicle from the San Dimas office. Also, from the evidence, it appears that the Anaheim employees rely on their own personal vehicles and do not often use the pool vehicles. Given the above, we find it reasonable to reject the request for funds to add a fourth pool vehicle for the Anaheim office.

¹⁰⁶ See Exhibit ORA-2.

With respect to the requested funds for luxury vehicles for Golden State's executives, we agree with ORA that ratepayers should only be responsible for costs equivalent to the purchase of non-luxury vehicles. Additional costs should instead be funded by shareholders. With respect to the correct costs, we find that although ORA did not challenge the costs allotted for manager vehicles which is \$39,000 for each vehicle, this failure is not binding with respect to the analysis of luxury vehicles for executives which should be analyzed separately. Looking at costs already spent for vehicles already purchased for executives which is \$34,600 for each vehicle, we find that this same amount should be applied for future purchases as it represents actual costs. Thus, for luxury vehicles, the amount of \$34,600 should be approved for each requested purchase and for reimbursement of vehicles already purchased.

With respect to the recommended reporting requirements for vehicles, we find that this is not necessary and that existing reporting requirements are adequate. Golden State demonstrated that it had presented all of ORA's requested information during this GRC and we agree. We find that there is no need to create special reporting requirements for vehicles in particular and that these should be reported similar to how other General Office purchases are currently reported in the GRC.

6.3.5. Office Upgrades

Golden is requesting \$17,500 to replace conference room chairs at the Ontario office, \$7,800 to replace six chairs for engineers, and \$23,800 to replace 17 chairs for technicians. Golden State is also requesting \$15,600 for a Smart Board Interactive Panel and \$10,000 for five layout tables both for the Anaheim office, and \$73,500 for general office furniture upgrades.

6.3.5.1. Positions of the Parties**6.3.5.1.1. ORA**

ORA recommends reducing the amount for all chairs to \$103 per chair, to disallow the Smart Board Interactive Panel and layout table requests because they are not necessary, and to reduce the amount for general office furniture upgrades to \$63,200.

6.3.5.1.2. Golden State

Golden State states that the ergonomic chairs it intends to purchase are necessary and promotes health and safety, that the Smart Board and layout tables are necessary for the Anaheim office, and that ORA provided no basis for its proposed reduction to the general office furniture upgrades requested by Golden State.

6.3.5.2. Discussion

After reviewing the arguments raised by both parties and the testimonies presented,¹⁰⁷ we find that the cost for chairs should be reduced to \$103 per chair as recommended by ORA, to disallow the purchase of a Smart Board Interactive Panel, and to grant Golden State's request for layout tables.

While we agree that ergonomic chairs may support the health, comfort, and safety of employees to some extent, the request must be balanced by the need for such because costs are to be funded by ratepayers.

Golden State did not provide evidence that every single employee needs to have an ergonomic chair. We also find the request to be excessive. The chairs selected by Golden State cost \$1,300 to \$1,400 each and it was not shown that less

¹⁰⁷ See Exhibit GS-29, Exhibit ORA-2 and Exhibit GS-128.

costly ergonomic chairs at prices quoted by the same vendor (or by other vendors) will achieve the same effect. Thus, we find that ORA's recommendation of \$103 each for non-ergonomic chairs is reasonable and should be approved at this time.

With respect to the Smart Board Panel, Golden State did not adequately demonstrate the necessity of the Smart Board Panel. While the Smart Board Panel provided benefits, Golden State did not show that these benefits cannot be achieved through other means. Golden State also did not provide evidence of cost benefits to ratepayers. The request of \$15,600 for a SMART Board Interactive Panel is denied. In its next GRC, Golden State should provide comparisons with the Anaheim office where Golden State has a Smart Board Panel.

With respect to the request for layout tables, we find that this request should be granted. Golden State presented sufficient evidence regarding the necessity for such and that there is no other alternative.

Finally, with regards to the \$73,500 requested for general office furniture upgrades, we find that ORA did not provide justification for its proposed reduction and that Golden State provided evidence to justify the request.

In sum and as provided above, for Golden State's office upgrade request we find that the following amounts should be authorized: \$1,600 to replace conference room chairs at the Ontario Office; \$800 to replace six chairs for engineers; \$2,200 to replace 17 chairs for technicians; \$10,000 for layout tables for the Anaheim office; and \$73,500 for general office furniture upgrades.

6.3.6. Customer Service Center Relocation to Anaheim

Golden State requests \$925,000 for its relocation of the Customer Service Center to Anaheim.

6.3.6.1. Positions of the Parties**6.3.6.1.1. ORA**

ORA agrees with the relocation but recommends an amount of \$757,430.

6.3.6.1.2. Golden State

Golden State states that the amount ORA recommends is outdated and that additional costs are needed for projects associated with the relocation.

6.3.6.2. Discussion

From the evidence and arguments, it appears that ORA's recommendation is based on amounts already spent and anticipated cost estimates as of October 2014. As of April 2015, the amount already spent was \$834,760 and it was estimated that an additional \$90,000 is needed for additional projects such as setting up heating, ventilation and air conditioning.

We find that Golden State's request is based on more updated information available and that it is reasonable and should be granted.

6.3.7. San Dimas Parking Lot Improvement

Golden State is requesting \$114,600 to conduct improvements and repair at the visitor parking lot in its San Dimas office.

6.3.7.1. Positions of the Parties**6.3.7.1.1. ORA**

ORA states that the parking lot only has minor cracks and is in safe condition for daily use.

6.3.7.1.2. Golden State

Golden State provides that the parking lot has raised cracks because of tree roots which will become more hazardous if not repaired soon.

6.3.7.2. Discussion

From the evidence, we find that the raised cracks in the parking lot at the San Dimas office location are due to tree roots and are likely to become worse if this condition is not repaired soon. The existing cracks are likely to worsen as the tree roots grow which could lead to even more costly repairs and may cause accidents. Thus, we find the requested amount of \$114,600, which was not challenged, to be reasonable and should be granted.

6.3.8. San Dimas Generator Replacement

Golden State requests \$66,000 for 2015, and \$475,000 in 2016, to replace its current generator at the San Dimas Office.

6.3.8.1. Positions of the Parties**6.3.8.1.1. ORA**

ORA recommends that the request be denied because the current generator is in proper working condition.

6.3.8.1.2. Golden State

Golden State argues that the generator is more than 20 years old and that the model has been discontinued by the manufacturer such that parts take 6 to 12 weeks to order.

6.3.8.2. Discussion

After examination of the evidence and arguments presented, we find that the Golden State failed to adequately demonstrate that the generator should be replaced at this time. The generator is in full working condition and has not been used a lot, only being used for 455 hours whereas a typical generator may be used for up to 10,000 hours. Because of its age, we agree that the generator will likely not be usable up to 10,000 hours, but find that Golden State failed to show that the generator is in danger of failing and that it should be replaced at this

time. Therefore, we find that the request for a replacement generator at the San Dimas office should be denied at this time.

6.3.9. Summary of General Office Disputed Costs

As a summary of disputed costs items under General Office, as discussed in the sections above, Golden State's requested amounts for the following should be approved: (a) IT Upgrade requests for Additional Storage, Personal Computers and Peripherals, and to Upgrade Consolidated Financial Reporting Software; (b) Software License Renewals and Maintenance Agreement; (c) GIS Project; (d) General Office Vehicles request for replacement of two pool vehicles for the Anaheim office; (e) Office Upgrade requests for Layout Tables for the Anaheim office and General Office Furniture Upgrades; (f) Customer Service Center Relocation to Anaheim; and (g) San Dimas Visitor Parking Lot Improvements.

We reduce Golden State's requested amount for the following:

(a) Network Equipment under IT Upgrades request was reduced by 10 percent of from \$1,202,500 to \$1,082,250; (b) Data Center Refresh Project under IT Upgrades request is reduced from \$710,400 to \$473,600; (c) Requested amount for Luxury Vehicles is reduced from \$39,000 for each vehicle to \$34,600 for each vehicle; and (d) Office Upgrade requested amounts for replacement chairs for the Ontario office, for engineers and technicians are reduced to \$1,600 to replace conference room chairs at the Ontario Office; \$800 to replace six chairs for engineers; \$2,200 to replace 17 chairs for technicians.

Finally, the requested amounts for the following are denied: (a) request for a fourth pool vehicle for the Anaheim office; (b) request for a Smart Board Interactive Panel; and (c) San Dimas Office Generator Replacement.

6.4. Escalation Filings

Escalation filings are filed during attrition years in the GRC cycle and include all calculations and documentation necessary to support a requested rate change to offset changes in costs which utilities are allowed to recover.

6.4.1. Positions of the Parties

Parties were in agreement with the methodology for computing escalation offsets for attrition years 2017 and 2018. ORA however, recommends that the escalation filings be made through Tier 2 advice letter filings while Golden State's position is that the filings be made through appropriate Tier 1 advice letter filings. ORA's position is that the escalation filings should be reviewed and that Golden State should make the appropriate filings even if there is a decrease in rates. Golden State contends that while it is unlikely, if the calculation of escalation and attrition year adjustments following the methodology described in the Rate Case Plan results in a revenue reduction, it intends to implement it.

6.4.2. Discussion

GO 96-B Water Rule 7.3.1(6) authorizes escalation filings to be filed as Tier 1 advice letters. Thus, Golden State should be directed to file escalation filings for attrition years 2017 and 2018, through appropriate Tier 1 advice letter filings following the advice letter procedures found in Section VII of Appendix A attached to D.07-05-062. The escalation filings are to be filed no later than 45 days prior to the start of the escalation year.

However, in light of the effective date of this decision, the escalation filing for attrition year 2017 should instead be filed within five days from the effective date of this decision, and shall be effective 45 days from the date of filing.

Additional discussion regarding the 2017 escalation filing is discussed in Section 7 of the decision.

Additionally, we agree with ORA that Golden State make escalation filings for attrition years 2017 and 2018, for all its ratemaking areas whether there is a projected increase or decrease in rates.

6.5. Special Request #3

Special Request #3 is a request to include the costs of chemicals needed to treat groundwater produced by Golden State's wells into its existing MCBA. The MCBA is an approved balancing account that tracks purchased power, purchased water, and pump tax costs. The MCBA is trued-up each year to reflect differences between actual and adopted variable costs for purchased power.

6.5.1. Positions of the Parties

6.5.1.1. ORA

ORA objects to the request stating that the chemical costs represent less than one percent of Golden State's revenue requirement and that the Commission does not normally include ordinary expenses in balancing accounts. ORA adds that there is no direct proportional relation between chemical costs and water production. Lastly, ORA points out that the request should be included in a rulemaking proceeding and that R.11-11-008¹⁰⁸ is currently looking at issues surrounding WRAM and MCBA issues.

6.5.1.2. Golden State

Golden State states that in the event that target reductions in water consumption pursuant to the Governor's statewide reduction mandate are not

¹⁰⁸ R.11-11-008 is an ongoing proceeding and remains open.

met, Golden State would have to either produce or purchase additional water in order to meet the needs of its customers. Golden State adds that it is less costly to produce, rather than to purchase, additional water from its wells. However, producing additional water means that its chemical costs will increase. Because it is difficult to project how much more water has to be produced, the resulting additional chemical costs would be difficult to predict as well.

6.5.2. Discussion

After reviewing the evidence and considering the arguments raised by Golden State and ORA, we find that the request to include chemical costs in the MCBA should be rejected.

We disagree with ORA that producing additional water has no relation to additional chemical costs. If there is additional water that needs to be treated with chemicals, then it follows that chemical costs will also increase. We also disagree that this request should be considered in R.11-11-008 and not in this proceeding. This issue is specific in nature and should be addressed in this proceeding.

However, we find that it is not proper to include chemical costs in Golden State's existing MCBA. As ORA pointed out, the requested amount for chemical costs requested in this proceeding is around one percent of the requested revenue requirement. What the MCBA purports to track is the difference between actual and forecast costs and we find that any resulting difference would be de minimis. As explained by Golden State, the increase in chemical costs will only result from the additional water it would have to produce from its wells if target water reduction levels are not met. If the water reduction target is met, then there would be no additional costs. No argument, projection, or evidence was presented that water reduction target levels would

not be met by a large margin and that chemical costs would vary significantly over Golden State's forecast amount. Additionally, the requested costs items that comprise Golden State's projected revenue requirement for this GRC period involves forecast costs and expenses and for most if not all of these projections, actual costs will not be exactly equal to, but will approximate forecast costs and expenses.

Thus, in view of the above, we find that Special Request #3 requesting the inclusion of chemical costs in Golden State's existing MCBA, should be rejected.

6.6. Other Issues

6.6.1. Condemnation Defense Costs

6.6.1.1. Claremont

Claremont reiterates its position made during comments to the Settlement Agreement regarding an amount of \$1 million for condemnation defense costs, in connection with a city measure voting approval for an eminent domain proceeding for the acquisition of Golden State's water system in Claremont. Claremont cites portions of the hearing transcripts where several witnesses¹⁰⁹ were questioned about \$1 million dollars allegedly to be used for condemnation defense costs. Ojai did not address this issue in its opening brief but had raised the issue in its comments to the Settlement Agreement.

6.6.1.2. Discussion

The objections by Claremont and Ojai Flow regarding \$1 million to be used for condemnation defense costs are already discussed in Section 4.9.3.1 of the decision. There is actually no line item for condemnation defense costs but

¹⁰⁹ Witnesses Switzer, Wahhab, Kruger, and Tran.

Claremont and Ojai Flow point out that this is included as part of the line item for General Office Outside Services.

The Settlement Agreement, which was executed subsequent to the testimonies and cross examinations cited above by Claremont, clearly states in Section 14.12 that none of the funds for General Office Outside Services shall be used for any condemnation defense in Claremont and Ojai, or for any future condemnation defense costs in other CSAs.

In addition, as explained in section 14.12 of the decision, the amount originally requested by Golden State for General Office Outside Services in this GRC was reduced by \$1.291 million. Golden State had initially requested an increase of \$1.5 million from the previously approved amount. The settlement amount however, resulted in a reduction of \$1.291 million from the requested increase of 1.5 million. Moreover, the settlement amount was explained to have been derived from an inflation-adjusted three-year average of actual recorded costs for 2011 to 2013, during times when there was no condemnation defense issue present. Thus, we are able to conclude that even if the originally requested amount for General Office Outside Services did include funds for condemnation defense, even though cross examination answers of witnesses relating to this issue were inconclusive, such additional funds have been removed and the requested amount that appears in the Settlement Agreement for General Office Outside Services, are for purposes other than condemnation defense.

However, in order to ensure that no amount authorized for General Office Outside Services in this GRC period is used for condemnation defense purposes, Golden State should be required to submit an audit of General Office Outside Services expenses in its next GRC filing.

In addition, Golden State should be directed that no ratepayer funds authorized in this GRC, and not just amounts authorized for General Offices Outside Services, should be used for condemnation defense.

6.6.2. Archive of Memorandum and Balancing Accounts

Claremont presented testimony¹¹⁰ that Golden State has over 30 memorandum and balancing accounts that apply to Claremont ratepayers. Claremont recommends that Golden State be required to maintain an archive of all advice letters and tariff sheets in chronological order on its webpage.

We find that Claremont's request is within the scope of this proceeding as determined in the Assigned Commissioner's Scoping Memo dated September 24, 2014. Specifically, the Scoping Memo includes issues relating to various memorandum and balancing accounts and an update for advice letters previously authorized. We find the request of maintaining an online list to be reasonable, but should be limited to a simple list of memorandum and balancing accounts, accompanied by a brief description of such accounts. Such a list provides important information, promotes transparency and allows ratepayers, as well as affected and interested parties to obtain relevant information regarding rates. Thus, we find that it is reasonable to require Golden State to maintain a list and basic description of active memorandum and balancing accounts for all its CSAs on its website, on a going forward basis. Golden State is directed to work with the Water Division regarding a specific format for this list.

¹¹⁰ Exhibits CC-1 and CC-2.

6.6.3. Other Issues in the Ojai CSA

Ojai Flow's briefs raised issues concerning a water main break that occurred on July 9, 2013, and the adequacy of Golden State's responsiveness to the emergency. Ojai Flow also questioned the adequacy of valve and fire hydrant inspections and rate comparison with neighboring utilities. Finally, Ojai Flow recommends that rates in Ojai be reduced by 10 percent because of Golden State's failure with regards to the above issues raised.

6.6.3.1. Discussion

We have reviewed the testimonies submitted by Ojai Flow,¹¹¹ the cross-examination transcripts, other exhibits, and arguments raised by the parties.

With regards to the main break, the evidence was not conclusive that Golden State responders contributed to the extent of the damage caused. The evidence shows that responders arrived at the scene of the incident although there were some discrepancies about the exact time of arrival and number of first responders. Golden State also issued a Boil Water Notice to customers that might have been affected by the water main break. There were questions whether residents were properly notified but testimony shows that the notice was directed only to residents in areas that were in danger of being affected and not to residents in the entire service area.

Ojai Flow suggests that having an operator field manual would have minimized the damage but it was shown that Golden State does in fact have an operator's field atlas that maps location of valves. The adequacy of fire hydrant

¹¹¹ Exhibit OF-1 and Exhibit OF-2.

and valve inspections were also raised but it was shown that Golden State conducted inspections on valves and fire hydrants in the Ojai CSA. It was not clear however, whether more frequent checks are necessary.

Regarding rate comparison studies of nearby areas, Golden State pointed to testimony showing that it conducted an affordability study as required by D.14-10-047.¹¹²

Based on the above, we find that the evidence does not show that Golden State's actions exacerbated the water main break. The request for a 10 percent reduction in rates has no basis. We find however, that Golden State should be required to provide in its next GRC, the number, locations, and policies and procedures concerning responders in the Ojai CSA, as well as the schedule of inspections for valves and fire hydrants in the Ojai CSA.

6.6.4. Santa Maria CSA Adjustment

On September 16, 2016, the Commission issued D.16-09-011 authorizing Golden State to increase its annual revenue requirement for the Santa Maria CSA by \$391,900.¹¹³ The increase was granted to allow recovery of costs associated with Golden State's participation in the Nipomo Supplemental Water Project. The purpose of the project is to serve demand in the Nipomo Mesa Management Area, which otherwise would have inadequate access to water and Golden State's participation was authorized in D.13-05-011.

Given that the adjustment was already authorized in D.16-09-011 while this GRC application was still pending, we find that it is appropriate to

¹¹² See Exhibit GS-103 at 1 to 2.

¹¹³ See D.16-09-011 Ordering Paragraph 3.

incorporate the \$391,000 increase in revenue requirement for the Santa Maria CSA, in Santa Maria CSA's TY2016 revenue requirement that is adopted in this decision.

7. Authorization to File Revised Tariffs

Appendices A through F to this decision show the adopted tariff schedules, rate base, revenue requirement, and other changes for the period 2016 through 2018, resulting from the adoption of the Settlement Agreement and resolution of the litigated issues in this proceeding.

Golden State would normally be authorized to file, by Tier 1 advice letter, revised tariff schedules attached to this decision for each district and rate area in this proceeding, and to concurrently cancel its present schedules, in conformance with this decision subject to approval by the Water Division.

The September 3, 2015 ALJ ruling authorized Golden State to file a tariff to implement interim rates, effective January 1, 2016, and to establish a memorandum account to track the difference, which is subject to refund, between the interim rates and the final rates adopted by the Commission in this proceeding.

For escalation years 2017 and 2018, Golden State is authorized to file Tier 1 advice letters in conformance with GO 96 B proposing new revenue requirements and corresponding revised tariff schedules for each district and rate area in this proceeding except that the 2017 escalation filing should be filed within five days from the effective date of this decision, to be effective 45 days after such filing. Golden State's advice letters must follow the escalation procedures set forth in the Revised Rate Case Plan for Class A Water Utilities adopted in D.07-05-062 (RRCP) and must include supporting workpapers. The revised tariff schedules should take effect 45 days after the escalation filing for

attrition year 2017, and January 1, 2018, respectively, and apply to services rendered on and after these effective dates. The proposed revised revenue requirements and rates must be reviewed by the Water Division. The Water Division must inform the Commission if it finds that the revised rates do not conform to the RRCP, this order, or other Commission decisions, and if so, should reject the filing.

An escalation advice letter, including workpapers, must be filed in accordance with GO 96-B no later than 45 days prior to the first day of the escalation year except as specified above regarding the 2017 escalation filing which shall be filed within five days from the effective date of this decision. To the extent that the pro forma earnings test for the 12 months ending September 30, as adopted in D.04 06 018, exceeds the amount authorized in this decision, the requested increase must be reduced from the level authorized in this decision to conform to the pro forma earnings test. Except as otherwise specified in the Ordering Paragraphs, advice letters filed in compliance with this decision should be handled as Tier 1 filings, effective on the first day of the test year.

In light of the effective date of this decision and further adjustments to rates expected from a true-up of interim rates effective since January 1, 2016, and Golden State's escalation filing for 2017, and in order to minimize the number of filings and eliminate multiple rate adjustments from being implemented within a short period of time, the revised schedules for 2016 shall be included in and subsumed in the 2017 escalation filing for attrition year 2017.

As discussed above, the September 3, 2015 ALJ ruling authorized Golden State to file a tariff to implement interim rates, effective January 1, 2016, and to memorandum account to track the difference, which is subject to refund, between the interim rates and the final rates adopted by the Commission in this

proceeding. The surcharge to true up the interim rates must comply with Standard Practice U 27-W. The tariff implementing the surcharge may be filed by Tier 2 advice letter after Golden State completes its calculations of the revenue differences between the interim and the final rates authorized by this decision. Advice letters not in compliance with this decision should be rejected consistent with GO 96 B. In view of the timing issues raised above, the tariff implementing the surcharge to true-up interim rates shall be filed within 30 days from the date of this decision and the effective date thereof shall coincide with the effective date of the 2017 escalation filing for attrition year 2017, which is 45 days after the 2017 escalation filing.

8. Categorization and Need for Hearing

In Resolution ALJ 176-3340 issued on August 14, 2014, the Commission preliminarily determined that the category of this proceeding is ratesetting and that hearings would be needed.

9. Comments on Proposed Decision

The proposed decision of ALJ Rafael Lirag in this matter was mailed to the parties in accordance with section 311 of the Public Utilities Code and comments were allowed under Rule 14.3 of the Commission's Rules of Practice and Procedure. Comments were filed on _____ by _____. Reply comments were filed on _____ by _____. The comments have been considered and appropriate changes have been made.

10. Assignment of Proceeding

Michael Picker is the assigned Commissioner and Rafael Lirag is the assigned ALJ in this proceeding.

Findings of Fact

1. Notice of the Application appeared in the Commission's July 18, 2014 Daily Calendar.

2. Protests to the Application were timely filed by the City of Ojai on August 14, 2014, Claremont on August 15, 2014, and ORA on August 18, 2014.

3. A summary of comments made at PPHs and e-mail correspondences sent to the Commission is included in the decision.

4. A settlement conference was held among the active parties and a settlement was reached on a few issues such as well study balancing account, conservation, and supply costs.

5. ORA filed two motions for separate phases to consider Golden State's compliance with the submission of an audit report and to consider water quality issues in the city of Gardena.

6. Golden State submitted the audit report and D.15-12-036 was issued by the Commission on December 17, 2015, resolving water quality issues in the city of Gardena.

7. ORA's motions for separate phases concerning Golden State's compliance with the submission of an audit report and water quality issues in Gardena have been resolved.

8. Golden State's motion for interim rate relief effective January 1, 2016, was granted on September 3, 2015.

9. Golden State bears the burden of proof to show that the rates it requests are just and reasonable and the related ratemaking mechanisms are fair.

10. The Settlement Agreement between Golden State and ORA resolves many of the issues among these two parties.

11. Claremont and Ojai Flow's objections to the Settlement Agreement were only with respect to a few provisions.

12. The agreements between ORA and Golden State contained in the Settlement Agreement regarding Plant, Sales and Customers, A&G, Taxes, O&M Expenses, Sources of Supply and Volumes, Conservation and General Office are reasonable and supported by the evidence.

13. The amount requested for General Services Outside Services contained in the Settlement Agreement does not include any amount to be used for condemnation defense.

14. The request to lift the 10 percent cap on WRAM/MCBA charges for during this GRC period is reasonable.

15. The establishment of a CEOWBA for each ratemaking area for this GRC period is reasonable.

16. The provisions in the Settlement Agreement regarding Special Requests 1, 2, and 4 through 14 are reasonable and supported by the evidence.

17. The proposals in the Settlement Agreement are the result of arms-length negotiations between the settling parties.

18. The other active parties in the proceedings that are not parties to the Settlement Agreement do not contest or oppose almost all of the settled terms.

19. Section 14.12 of the Settlement Agreement clearly states that none of the funds under General Office Outside Services shall be used for any condemnation defense in Claremont and Ojai, or for any future condemnation defense costs.

20. The amount requested for General Services Outside Services was reduced by \$1.291 million in the Settlement Agreement.

21. Each of the issues resolved in the Settlement Agreement is addressed by evidence in the record and most of the proposed amounts in the Settlement Agreement fall within the ranges recommended by parties in the proceeding.

22. Overall, the amounts agreed upon in the Settlement Agreement are less than Golden State's initially requested amounts.

23. Some of the objections raised against the Settlement Agreement are outside of the settled terms.

24. Golden State's capital projects are presented with sufficient detail and most projects are projects that have been conducted before or are to replace or improve existing facilities.

25. Many capital projects incorporate additional costs such as overhead costs, design costs, contingency costs, etc.

26. Many projects have design components where a project can be fully scrutinized and studied prior to construction.

27. A 10 percent design cost for pipeline projects and 15 percent design cost applied to non-pipeline projects is reasonable. An additional 20 percent design cost for all projects exceeding \$500,000 is likewise reasonable.

28. Golden State should follow the DGS mileage replacement standard.

29. Vehicle Nos. 1160; 1275; 1014; 1110; 2128; 501337 are not heavy trucks.

30. Golden State is not classified as an urban water supplier in the Ojai CSA.

31. Section I.1.C of GO 103-A provides that the rules in said order shall not be construed to require the replacement of facilities in use at the time of adoption of the order, prior to the expiration of the economic life of such facilities.

32. A systematic approach towards pipeline replacements such as the PMP is more appropriate in this GRC rather than a case by case analysis of proposed pipeline projects.

33. Golden State uses the KANEW Model as a basis for setting the rate of pipeline replacement.

34. The KANEW Model recommended that 27.77 miles of pipeline be replaced in Region 2.

35. Golden State's proposal to replace 36 miles of pipeline in Region 2 is approximately 30 percent above what the KANEW Model recommended and results in a budget that is almost double than the amount authorized in Golden State's prior GRC.

36. The record does not sufficiently support why the variance from the KANEW Model is at the level being requested.

37. It is reasonable to approve 32 miles of pipeline replacement for Region 2 which is around the midpoint between what Golden State proposes and what the KANEW Model recommended.

38. Watt Well #2 in the Arden Cordova System is one of the top three producing wells from 2012 to 2014.

39. No evidence was presented about water quality issues surrounding Watt Well #2.

40. The current system at the Trussel Plant is able to meet projected demand and fire protection needs within this GRC cycle given the recent reduction of demand, the Governor's water reduction mandate, and interconnection with other systems that can be relied upon in emergency cases.

41. The Coloma WTP Grounding Survey and Coloma WTP, Recoat Reservoir #2 projects are reasonable and should be approved.

42. The CCWD Randall-Bold WTP (Golden State's share of costs), Madison Reservoir: Re-roof Reservoir, and Hill Street Plant: Recoat Reservoir #3 and

Install Seismic Improvements and Skyline Reservoir, Recoat Interior projects for the Bay Point CSA are reasonable and should be approved.

43. Golden State was not able to fully justify the need for backup generators at the Lakeshore Plant and Sonoma WTP.

44. The Sonoma WTP, Clearwell Roof and Interior project for the Clearlake CSA is reasonable and should be approved.

45. The Country Club Reservoir Plant: Replace East Reservoir, Los Olivos Plant: Install New Well, Bayview Zone: Realign Pressure Zone, and Edna Road: Drill and Equip Well, Land Acquisition, Air Mitigation projects for the Los Osos CSA are reasonable and should be approved.

46. Combining three tank projects in the Los Osos CSA into a single project results in an increase of design costs by three percent.

47. The Main Zone: Realign Pressure Zone and CWIP: Valley View/Fairview Plant projects in the Ojai CSA are reasonable and should be approved.

48. The Mutual Plant, Install Fencing project in the Ojai CSA is for 600 feet of fencing.

49. The unit cost for 600 feet of fencing should be comparable to the unit cost of a 400 feet fencing project where the unit cost was \$50 per foot.

50. The following projects in the Santa Maria CSA are reasonable and should be approved: Disinfection Facilities at the Eucalyptus Plant, La Serena Plant and Osage Plant; Alta Mesa Plant, Wells, Electrical, etc.; Oak Plant, Replace MCC and Install VFD; Orcutt Plant, Replace MCC and Install VFD; Mira Flores #6, Replace MCC and SCADA; Orcutt hill Plant, Recoat Reservoir #1; Mira Flores #1, Reservoir and Electrical; Pinewood Plant, Reservoir and Boosters; CWIP, Design Work for Tanglewood Reservoir and Boosters; and CWIP Tanglewood/Sisquoc Spare Pumps and Motors.

51. The unit cost of residual analyzers recommended by Golden State's Coastal District Water Quality Engineer is more appropriate than ORA's recommended amount obtained from a generic online search.

52. The unit cost of the residual analyzers selected by Golden State for its project in Santa Maria is \$4,694, and not \$5,000.

53. It is more appropriate to spread installation of residual analyzers at the Santa Maria CSA over two years.

54. Complaints regarding water pressure in the Santa Maria CSA were not substantiated.

55. The sole purpose of the Systemwide, Zone Realignment Study and Rice Ranch Subzone, Install PRV projects is to comply with pressure requirements under GO 103-A.

56. GO 103-A need not apply to existing facilities and utilities.

57. It is reasonable to approve the Studebaker Well #3 Drill and Equip project at the Central Basin East CSA.

58. It is reasonable to approve the Bissell Boosters B and C, Upsize Piping and McKinley Chemical Plant Building and Sump projects at the Central Basin West CSA.

59. It is reasonable to approve the Perham Plant Upgrades project at Culver City.

60. It is reasonable to approve the Chadron Plant, Site Recommendation and CWIP and CWIP, Truro Plant – Abandon Well #4 projects at the Southwest CSA.

61. Golden State should explore options to upgrade the Lenawee Plant booster pumps and to determine whether the Lenawee Plant can serve as a secondary source of water for Culver City.

62. SCADA Interconnection costs for the Norwalk SCADA project, Bell-Bell Gardens SCADA project, Flrnc-Grhm SCADA project, Willowbrook SCADA project, Southwest SCADA project, WB-11 Abandon; WB-15 Upgrade project, and WB-24, WB-34, Upgd Vault&SCADA project should each be reduced from \$97,637 to \$67,973.

63. The Orange County Water District maintains a basin production percentage currently set at 70 percent and Golden State has capacity to produce 70 percent.

64. The West OC: Howard Plant, Install Pump-to-Waste drain Line, West OC: South Cypress Plant, Install Pump-to-Waste drain Line, West OC: SCADA Phase III, and Florista West Tank, Recoat and Drain Improvements projects at the Los Alamitos CSA are reasonable and should be approved.

65. The following projects at the Placentia CSA are reasonable and should be approved: Install PRVs on Rangeview, Deerhaven, and Overhill Pipe; Install Secondary Mainline, PRVs and Valves on Newport Boulevard, Greenbrier Lane, and Brier Lane; Fairhaven Well #3, Drill and Develop; Placentia SCADA Phase III; and Yorba Linda SCADA Phase III.

66. The Portable Booster Pump and Tools and Safety Equipment project for the Foothill District Office is reasonable and should be approved.

67. The Pomello Well #5, Drill and Equip and Pomello Plant, Replace Booster Station projects at the Claremont CSA are reasonable and should be approved.

68. Approving the Pomello Well project will increase Golden State's capacity in the Claremont CSA.

69. If the Pomello Well project is approved, adding arsenic treatment to Del Monte Well #4 in order to bring it back to use is not needed during this GRC cycle.

70. The project to replace Disinfection Buildings at Encinita, Farna, Persimmon, and San Gabriel Plant is reasonable and should be approved.

71. The following projects for the Barstow CSA are reasonable and should be approved: Replace Electrical Panel for Bradshaw Well #11 and #12; Transfer Switch at Bradshaw Well #11; Eaton Plant, Construct Storage Tank; and 1st Avenue Bridge Replacement, Relocate 1,400 LF of Pipeline.

72. The Linda Vista reservoir project and Irwin reservoir project require easement approvals from the Bureau of Labor and Management.

73. The request for an easement approval for the Linda Vista reservoir project was made in June 2013, and Golden State has not received final of the easement request.

74. It is uncertain whether the easement requests will be approved and whether construction can be commenced during this GRC cycle.

75. The Install Uranium Removal System at Elm Well project for the Barstow CSA is reasonable and should be approved.

76. Golden State expects to pay a premium to acquire land to construct a reservoir in the Mojave Tank Zone.

77. Golden State did not present sufficient evidence on how much of a premium it expects to pay and whether such a premium would be too costly and unreasonable for ratepayers to bear.

78. Golden State requested \$1,333,300 to construct a reservoir in the Mojave Tank Zone.

79. The following projects in the Apple Valley CSA are reasonable and should be approved: Yucca Booster Zone, Construct Reservoir; Kiowa Plant, Drill and Equip Replacement Well; Kiowa Plant, Construct Reservoir and Booster Station; and CWIP – Valley Crest Reservoir and Booster Station.

80. Approval of construction of a new well at the Kiowa Plant in the Apple Valley CSA means that installing a transfer switch for the old well will no longer be necessary.

81. The Valley Crest Reservoir and Booster Station project should be approved but should be moved to 2016.

82. The New Sheep Creek Reservoir and Pipe and Linnet Reservoir, Install Earthquake Valve projects in the Wrightwood CSA are reasonable and should be approved.

83. The amount of Officer Compensation is recommended by an independent Compensation Committee based on several factors including analysis of a compensation consultant.

84. Analysis by the compensation consultant includes a report which compares Golden State's compensation to a Peer Group composed of similar companies selected by the analyst.

85. It was not sufficiently established that the companies that comprised the Peer Group were specifically selected in order to raise the recommended Officer Compensation.

86. The Peer Group study is not be the sole basis for determining Officer Compensation.

87. Manager salaries are based on a 1990 study and salaries are subject to escalation through mechanisms approved by the Commission.

88. 2005 manager compensation levels will be based in part, on 1990 levels subject to escalation.

89. Both ratepayers and shareholders benefit from having a STIP plan based on the metrics used in determining STIP awards.

90. It is reasonable to divide the costs for STIP between ratepayers and shareholders.

91. LTIP awards are primarily in the form of restricted stock that vest over a three-year period.

92. When officers are awarded stock units, the value of the stock units will grow if the company's stock price increases.

93. The Commission has generally disallowed long term incentive compensation.

94. Golden State has to increase its efforts in order to retain highly qualified and high performing employees.

95. The merit salary adjustment is an important means to retain highly qualified and high performing employees.

96. The new Procurement Department Position should be approved without any qualifying conditions.

97. Maintaining up-to-date software is essential in maintaining security and preventing cyber-attacks.

98. Hardware such as routers and switches are not necessarily completely obsolete after a short period.

99. Not all of Golden State's network equipment is at its five-year cycle.

100. The request for additional storage is reasonable and should be approved.

101. Support for some of Golden State's hardware and software has not been completely phased-out.

102. When a vendor ceases to support a particular product, it does not necessarily mean that the product ceases to function.

103. Adding seven spare computers is not merited given that each system will have to be replaced in four years.

104. The request for \$10,000 to upgrade consolidated financial reporting software is reasonable and should be approved.

105. Golden State's requested amounts for Software License Renewals and Maintenance Agreement should be approved.

106. The requested amount for the GIS project should be approved.

107. It is reasonable to replace two old pool vehicles at the Anaheim office.

108. Anaheim employees rely on their own personal vehicles and do not often use the pool vehicles.

109. Ratepayers should only be responsible for costs equivalent to the purchase of non-luxury vehicles and additional costs should be funded by shareholders.

110. The amount actually spent for purchasing vehicles should be the basis for future purchases.

111. The request for ergonomic chairs must be balanced by the need for such chairs.

112. Golden State did not provide evidence that every single employee needs to have an ergonomic chair.

113. Golden State did not adequately show that the Smart Board Panel is necessary and if the benefits it will provide can be achieved through other means.

114. The request for layout tables is reasonable and should be granted.

115. The request for general office furniture upgrades is reasonable and should be approved.

116. Golden State's request of \$925,000 for relocation of the Customer Service Center to Anaheim is reasonable and should be approved.

117. The requested amount of \$114,600 to repair raised cracks in the parking lot at the San Dimas office location is reasonable and should be approved.

118. The current generator at the San Dimas office is in full working condition, and has only been used for 455 hours whereas a typical generator may be used for up to 10,000 hours.

119. Golden State failed to show that the generator at the San Dimas office is in danger of failing and that it should be replaced at this time.

120. Golden State is requesting to track the difference between forecast and actual chemical costs.

121. The requested amount for chemical costs requested in this proceeding is around 1 percent of Golden State's requested revenue requirement.

122. Increase in chemical costs will result from additional water Golden State would have to produce from its wells if target water reduction levels are not met.

123. No evidence was presented that water reduction target levels would not be met by a large margin and that chemical costs would vary significantly from Golden State's forecast.

124. A list of active memorandum and balancing accounts provides important information, promotes transparency, and allows ratepayers and affected and interested parties to obtain relevant information regarding rates.

125. The evidence was not conclusive that Golden State's responders contributed to the damage caused by the main break in Ojai.

126. Residents in areas that were in danger of being affected by the main break were given a Boil Water Notice.

127. Golden State has an operator's field atlas that maps location of valves.

128. Golden State conducted inspections on valves and fire hydrants in the Ojai CSA but it is not clear if it needs to conduct more frequent inspections.

129. On September 16, 2016, the Commission issued D.16-09-011 authorizing Golden State to increase its annual revenue requirement for the Santa Maria CSA by \$391,900.

130. GO 96-B Water Rule 7.3.1(6) authorizes escalation filings to be filed as Tier 1 advice letters.

Conclusions of Law

1. The agreed upon provisions in the Settlement Agreement are reasonable in light of the record as a whole.

2. The proposals put forth in the Settlement Agreement do not contravene or compromise any statutory provision or prior Commission decision, are reasonable, consistent with the law, and in the public interest.

3. The Settlement Agreement satisfies the applicable settlement standards of Rule 12.1(d).

4. The proposals put forth in the Settlement Agreement are presented as an integrated package and all these proposals should be approved.

5. The resolution of Golden State's special requests addressed in the Settlement Agreement, except for Special Request #3, is reasonable.

6. A five percent contingency factor for capital projects is reasonable and should be applied for both capital projects and blanket budgets.

7. A 10 percent design cost for pipeline projects and 15 percent design cost applied to non-pipeline projects, including an additional 20 percent for projects that exceed \$500,000, should be approved.

8. Approved budgets for capital projects should be subject to adjustments based on findings regarding additional costs.

9. Heavy trucks should be replaced when they reach mileage in excess of 150,000 miles.

10. The UWMP is not applicable in the Ojai CSA and the \$65,000 requested for a UWMP for the Ojai CSA should be denied.

11. When considering each proposed capital project, the Commission shall consider the requirements provided under GO 103-A but shall also take note of instances when its rules are not mandatory.

12. The rate of pipeline replacement that should be authorized for Region 2 is 32 miles instead of the requested 36 miles.

13. Replacing Watt Well #2 and the accompanying request to acquire land for the proposed new well is not necessary at this time.

14. The requested amounts to construct a new well, reservoir, and boosters at the Trussel Plant should be denied at this time.

15. The Lakeshore Plant, Generator Connection and Sonoma WTP, Generator project should be denied.

16. The budget for the Systemwide, Recoat Reservoirs project in Los Osos CSA should be reduced by three percent.

17. The budget requested for the Mutual Plant, Install Fencing project should be reduced to \$50,700, which reflects a unit cost of \$50 per foot.

18. The unit cost for the systemwide residual analyzers project at the Santa Maria CSA should be reduced to \$4,700 per unit.

19. The construction phase of the systemwide residual analyzers project at the Santa Maria CSA should be moved to 2017.

20. It is reasonable to deny approval of the Systemwide, Zone Realignment Study and Rice Ranch Subzone, Install PRV projects at the Santa Maria CSA at this time.

21. The request to install a new booster station for the Baldwin Plant in at the Culver City CSA should not be granted at this time.

22. The West OC, Drill and Equip Sonoma Well #2 project at Los Alamitos CSA should be denied at this time.

23. The Add Arsenic Treatment to Del Monte Well #4 project for the Claremont CSA should not be approved.

24. The CWIP: Linda Vista Pipeline, H Street Booster Station, H Street Plant Site Acquisition, and Linda Vista Reservoir project should be denied at this time.

25. The CWIP: Irwin Reservoir and Transmission Main project should be denied at this time.

26. The construction of a reservoir in the Mojave Tank Zone should be approved as an Advice Letter Project with a spending cap of \$1,333,300, because of uncertainty regarding the acquisition of property where the reservoir will be constructed.

27. The installation of a transfer switch at the Mohawk Plant in the Apple Valley CSA should be disallowed.

28. The forecast for Officer Compensation is reasonable and should be approved subject to adjustments based on findings with respect to STIP, LTIP, and merit adjustment.

29. The forecast methodology and basis for Manager Compensation are reasonable and Golden State's forecast should be approved.

30. Golden State's requested amount for STIP should be reduced by 50 percent.

31. Awardees of stock units have an incentive to align with the company's goals that improve the financial standing of the company and on other issues that raise the stock price.

32. The LTIP award is tied to financial performance over a period of time and demonstrates that a premium is being placed on the companies' financial performance.

33. Ratepayer funding of the costs of the LTIP awards should be denied.

34. The one percent Merit Salary Adjustment should be granted.

35. Golden State's requested budget for Network Equipment should be reduced by 10 percent.

36. For the Data Center Refresh project, a total of \$473,600 should be approved in 2017 and 2018.

37. A three-year budget of \$715,041 for personal computers and peripherals should be granted.

38. The request for funds to add a fourth pool vehicle for the Anaheim office should be denied.

39. The requested amount for luxury vehicles should be reduced from \$39,000 for each vehicle to \$34,600.

40. The purchase of non-ergonomic chairs at \$103 each is what should be approved at this time.

41. Golden State's request for a Smart Board Panel should be denied.

42. Golden State's request to replace the San Dimas office generator should be denied at this time.

43. Any resulting difference between actual and forecast chemical costs would be de minimis.

44. Tracking chemical costs is not germane to the costs being tracked by Golden State's current MCBA.

45. Special Request #3 should be denied.

46. The request to maintain an online list of active memorandum and balancing accounts for all CSAs is reasonable and should be required.

47. The request for a 10 percent reduction of rates for the Ojai CSA has no basis.

48. It is appropriate to incorporate the \$391,000 increase in revenue requirement granted in D.16-09-011, into Santa Maria CSA's TY2016 revenue requirement that is adopted in this decision.

49. Golden State should be directed file escalation filings via the appropriate Tier 1 advice letters for attrition years 2017 and 2018, for all its ratemaking areas.

50. Application 14-07-006 should be closed.

ORDER

IT IS ORDERED that:

1. The joint motion of Golden State Water Company and the Office of Ratepayer Advocates to approve the Settlement Agreement is granted. The settlement agreement attached to this decision as Attachment A is adopted.

2. Within 45 days from the date of this decision, Golden State Water Company shall establish, via appropriate Tier 1 advice letter filings, separate Conservation Expense One-Way Balancing Accounts for each ratemaking area. These accounts shall only be effective for the duration of this general rate case period.

3. Within 45 days from the date of this decision, Golden State Water Company shall file a Tier 2 advice letter to establish a memorandum account to track operations and maintenance costs not covered by the First 5 Sacramento Commission funding for a project to implement fluoridation of water in the

Arden Cordova customer service area. Golden State may only track costs until 2018 and may in its next general rate case cycle seek to include funding levels for the project for 2019 and thereafter.

4. Golden State Water Company is authorized to utilize a 5 percent contingency factor for capital projects and blanket budgets.

5. The capital request to add an Urban Water Management Plan in each of Golden State Water Company's service areas is approved for the 2016 capital budget, except for the Ojai customer service area which is disapproved.

6. A 10 percent design cost for pipeline projects and 15 percent design cost for non-pipeline projects, and an additional 20 percent for all projects in excess of \$500,000, are approved.

7. Approved capital projects are subject to adjustment based on Ordering Paragraphs 4 and 6 as applicable.

8. The vehicle replacements proposed by Golden State Water Company is approved except for heavy trucks which shall be replaced upon reaching a mileage level in excess of 150,000 miles.

9. Golden State Water Company's Pipeline Management Plan is adopted and proposed pipeline replacement projects are authorized to be included in the capital budget except for pipeline replacement projects in Region 2.

10. Pipeline replacement projects for Region 2 are authorized up to 32 miles along with a capital budget for such projects of \$72,783,100, which is inclusive of a five percent contingency factor.

11. Golden State Water Company is authorized to select which of its proposed pipeline projects for Region 2 it will undertake, within the limitations set forth in Ordering Paragraph 10.

12. In its next general rate case application, Golden State Water Company shall include information which of its proposed pipeline projects for Region 2 were undertaken.

13. Golden State Water Company is authorized to include the following Region 1 projects in its capital budget for the following customer service areas:

Arden Cordova Customer Service Area

- Coloma WTP, Grounding Survey
- Coloma WTP, Recoat Reservoir #2

Baypoint Customer Service Area

- CCWD Randall-Bold WTP share of costs
- Madison Reservoir, Re-roof Reservoir
- Hill Street Plant, Recoat Reservoir #3 and Install Seismic Improvements and Skyline Reservoir, Recoat Interior

Clearlake Customer Service Area

- Sonoma WTP, Clearwell Roof and Interior

Los Osos Customer Service Area

- Country Club Reservoir Plant, Replace East Reservoir
- Los Olivos Plant, Install New Well
- Bayview Zone, Realign Pressure Zone
- CWIP, Edna Road: Drill and Equip Well, Land Acquisition, Air Mitigation

Ojai Customer Service Area

- Main Zone, Realign Pressure Zone
- CWIP, Valley View/Fairview Plant

Santa Maria Customer Service Area

- Disinfection Facilities at the Eucalyptus Plant, La Serena Plant and Osage Plant
- Alta Mesa Plant, Wells, Electrical, etc.
- Oak Plant, Replace MCC and Install VFD
- Orcutt Plant, Replace MCC and Install VFD
- Mira Flores #6, Replace MCC and SCADA
- Orcutt hill Plant, Recoat Reservoir #1
- Mira Flores #1, Reservoir and Electrical
- Pinewood Plant, Reservoir and Boosters

- CWIP, Design Work for Tanglewood Reservoir and Boosters
- CWIP Tanglewood/Sisquoc Spare Pumps and Motors

14. Golden State Water Company is authorized to include the following

Region 2 projects in its capital budget for the following customer service areas:

Central Basin East Customer Service Area

- Studebaker Well #3 Drill and Equip

Central Basin West Customer Service Area

- Bissell Boosters B and C, Upsize Piping
- McKinley Chemical Plant Building and Sump

Culver City Customer Service Area

- Perham Plant Upgrades

Southwest Customer Service Area

- Chadron Plant, Site Recommendation and CWIP
- CWIP, Truro Plant – Abandon Well #4

15. Golden State Water Company is authorized to include the following

Region 3 projects in its capital budget for corresponding customer service areas:

Los Alamitos Customer Service Area

- West OC: Howard Plant, Install Pump-to-Waste drain Line
- West OC: South Cypress Plant, Install Pump-to-Waste drain Line
- West OC: SCADA Phase III
- Florista West Tank, Recoat and Drain Improvements

Placentia Customer Service Area

- Install PRVs on Rangeview, Deerhaven, and Overhill Pipe
- Install Secondary Mainline, PRVs and Valves on Newport Boulevard, Greenbrier Lane, and Brier Lane
- Fairhaven Well #3, Drill and Develop
- Placentia SCADA Phase III
- Yorba Linda SCADA Phase III

Foothill District Office

- Portable Booster Pump and Tools and Safety Equipment

Claremont Customer Service Area

- Pomello Well #5, Drill and Equip

- Pomello Plant, Replace Booster Station

San Gabriel Valley Customer Service Area

- Replace Disinfection Buildings at Encinita, Farna, Persimmon, and San Gabriel Plant.

Barstow Customer Service Area

- Replace Electrical Panel for Bradshaw Well #11 and #12
- Transfer Switch at Bradshaw Well #11
- Eaton Plant, Construct Storage Tank
- 1st Avenue Bridge Replacement, Relocate 1,400 LF of Pipeline

Morongo Valley Customer Service Area

- Install Uranium Removal System at Elm Well

Apple Valley Customer Service Area

- Yucca Booster Zone, Construct Reservoir
- Kiowa Plant, Drill and Equip Replacement Well
- Kiowa Plant, Construct Reservoir and Booster Station

Wrightwood Customer Service Area

- New Sheep Creek Reservoir and Pipe
- Linnet Reservoir, Install Earthquake Valve

16. Golden State Water Company is authorized to include the following Region 1, 2, and 3 projects in its capital budget subject to the following adjustments:

Los Osos Customer Service Area

Systemwide; Recoat Reservoirs – reduce budget by 3 percent

Ojai Customer Service Area

Mutual Plant, Install Fencing – reduce budget to \$50,700

Santa Maria Customer Service Area

Systemwide Residual Analyzers – reduce unit cost to \$4,700 and move installation phase to 2017.

Region 2 SCADA Projects

The Norwalk SCADA project, Bell-Bell Gardens SCADA project, Flrnc-Grhm SCADA project, Willowbrook SCADA project, Southwest SCADA project, WB-11 Abandon; WB-15 Upgrade

project, and WB-24, WB-34, Upgd Vault&SCADA project are each reduced by \$29,664.

Morongo Valley Customer Service Area

Construct Reservoir in Mojave Tank Zone – approve as Advice Letter Project with a spending cap of \$1,333,300.

Apple Valley Customer Service Area

CWIP: Valley Crest Reservoir and Booster Station – move to 2017

17. Golden State Water Company shall file a Tier 2 Advice Letter for a ratebase offset when construction of the Reservoir in Mojave Tank Zone project is completed and the Reservoir is used and useful subject to the spending cap limitation specified in Ordering Paragraph 16.

18. The following requested projects in the corresponding customer service areas are denied:

Arden Cordova Customer Service Area

- Arden Water Supply: Acquire Land for Well, Design and Permit for New Well
- Trussel Plant: Well, Reservoir and Boosters

Clearlake Customer Service Area

- Lakeshore Plant, Generator Connection and Sonoma WTP, Generator

Santa Maria Customer Service Area

- Systemwide; Zone Realignment Study
- Rice Ranch Subzone, Install PRV

Culver City Customer Service Area

- Baldwin Hills Booster Station

Los Alamitos Customer Service Area

- West OC, Drill and Equip Sonoma Well #2

Claremont Customer Service Area

- Add Arsenic Treatment to Del Monte Well #4

Barstow Customer Service Area

- CWIP: Linda Vista Pipeline, H Street Booster Station, H Street Plant Site Acquisition, and Linda Vista Reservoir

- CWIP: Irwin Reservoir and Transmission Main

Apple Valley Customer Service Area

- Mohawk Plant, Install Emergency Transfer Switch

19. Golden State Water Company's proposed base for Manager Compensation is hereby adopted.

20. Golden State Water Company's requested budget for its Executive Officer Short-Term Incentive Plan is reduced by 50 percent.

21. Golden State Water Company's request for ratepayers to fund its Executive Officer Long-Term Incentive Plan is denied.

22. Golden State Water Company's one percent Merit Salary Adjustment is adopted.

23. Golden State Water Company's proposed Executive Officer Compensation is granted, subject to adjustments to its Executive Officer Short-Term Incentive Plan and Executive Officer Long-Term Incentive Plan as determined in Ordering Paragraphs 20 and 21.

24. Golden State Water Company's is authorized to create a new position in the Procurement Department is approved.

25. Golden State Water Company's requested budget for Information Technology upgrades is approved subject to the following adjustments:

- The requested budget for Network Equipment is reduced by 10 percent.
- The Data Refresh Center budget should be reduced to \$473,600.
- The three-year budget for personal computers and peripherals is reduced to \$715,041.

26. Golden State Water Company's requested amount for the Geographic Information System is approved.

27. Golden State Water Company's requested budget for General Office Vehicles should be reduced by subtracting the cost of adding a fourth pool vehicle for the Anaheim office and applying a unit cost of \$34,600 for luxury vehicles.

28. Golden State Water Company is authorized to include in its capital budget for General Office, requested Office Upgrades subject to the following adjustments:

- The requested amount to replace conference room chairs at the Ontario Office is reduced to \$1,600;
- The requested amount to replace six chairs for engineers is reduced to \$800;
- The requested amount to replace 17 chairs for technicians should be reduced to \$2,200; and
- The requested amount to purchase a Smart Board Interactive Panel is denied.

29. Golden State Water Company is authorized to include in its capital budget for General Office, its requested amount for the relocation of its Customer Service Center to the Anaheim office.

30. Golden State Water Company is authorized to include in its capital budget for General Office, its requested amount for visitor parking lot improvements at the San Dimas office.

31. Golden State Water Company's request to replace the office generator at the San Dimas office is denied.

32. Golden State Water Company's Special Request #3 to include chemical costs in its existing Modified Cost Balancing Account is denied.

33. Within 90 days of the effective date of this decision, Golden State Water Company is ordered to maintain an active list of all memorandum and balancing accounts for each of its customer service areas on a going forward basis,

containing the name and basic description of each account. Golden State Water Company shall work with the Water Division to determine a specific format for the list.

34. In its next general rate case application, Golden State Water Company shall include an audit report of General Office Outside Services expenses incurred in this general rate case cycle.

35. Golden State Water Company shall not use ratepayer funds authorized in this decision for any condemnation defense costs.

36. In its next general rate case application, Golden State Water Company shall provide provide in its next GRC, the number, locations, and policies and procedures concerning responders in the Ojai CSA, as well as the schedule of inspections for valves and fire hydrants in the Ojai CSA.

37. Golden State Water Company is authorized to include the increase in revenue requirement of \$391,000 for the Santa Maria Customer Service Area granted in Decision 16-09-011, to the Test Year 2016 revenue requirement for the Santa Maria customer service area.

38. Golden State Water Company is authorized to revise tariff schedules, and to concurrently cancel its present schedules for such service upon the effective date of its 2017 escalation filing. The revision of tariff schedules for authorized rates in 2016 shall be included and subsumed in Golden State Water Company's escalation filing for attrition year 2017.

39. The surcharge to true-up the interim rates must comply with Standard Practice U 27-W. The tariff implementing the surcharge shall be filed by Tier 2 advice letter after Golden State Water Company calculates the revenue difference between the interim rates and the authorized rates but within 30 days of the effective date of this decision. The effective date thereof shall coincide with the

effective date of the 2017 escalation filing which is 45 days from the date of the 2017 escalation filing.

40. For escalation years 2017 and 2018, Golden State Water Company must file Tier 1 advice letters in conformance with General Order 96-B proposing new revenue requirements and corresponding revised tariff schedules for each district and rate area in this proceeding except that the 2017 escalation filing for attrition year 2017 shall be filed within five days from the effective date of this decision. Golden State Water Company's advice letters must follow the escalation procedures set forth in the Revised Rate Case Plan for Class A Water Utilities adopted in Decision 07-05-062 and must include supporting workpapers. The revised tariff schedules must take effect 45 days after the 2017 escalation filing and on January 1, 2018, respectively and apply to services rendered on and after their effective dates. The 2017 escalation filing shall incorporate and subsume the revision of tariff schedules authorized for Test Year 2016. The proposed revised revenue requirements and rates must be reviewed by the Commission's Water Division. The Water Division must inform the Commission if it finds that the revised rates do not conform to the Revised Rate Case Plan, this decision, or other Commission decisions, and if so, reject the filing.

41. Application 14-07-006 is closed.

This decision is effective today.

Dated _____, at San Francisco, California.